

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Louisiana Lottery Corporation
State of Louisiana
Baton Rouge, Louisiana

September 29, 1997



Financial and Compliance Audit Division

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

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

**General Purpose Financial Statements
and Independent Auditor's Reports
As of and for the Year Ended June 30, 1997
With Supplemental Information Schedules**

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.

September 29, 1997

**LOUISIANA LOTTERY CORPORATION
STATE OF LOUISIANA**

**General Purpose Financial Statements
and Independent Auditor's Reports
As of and for the Year Ended June 30, 1997
With Supplemental Information Schedules**

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September 5, 1997

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 general purpose financial statements of the Louisiana Lottery Corporation (the Corporation), a component unit of the State of Louisiana, as of and for the years ended June 30, 1997, and June 30, 1996, as listed in the foregoing table of contents. These general purpose financial statements are the responsibility of the Louisiana Lottery Corporation's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose 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 general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Louisiana Lottery Corporation as of June 30, 1997, and June 30, 1996, and the results of operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 5, 1997, on our consideration of the Louisiana Lottery Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts.

LEGISLATIVE AUDITOR

BOARD OF DIRECTORS
LOUISIANA LOTTERY CORPORATION
STATE OF LOUISIANA
Audit Report, June 30, 1997

Our audits were made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying supplemental information schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the general purpose financial statements of the Louisiana Lottery Corporation. Such information has been subjected to the procedures applied in the audits of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Respectfully submitted,



Daniel G. Kyle, CPA, CFE
Legislative Auditor

MMG:THC:dl

{LOTTERY}

LOUISIANA LOTTERY CORPORATION
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND

Balance Sheet, June 30, 1997
(With Comparative Totals for June 30, 1996)

	1997	1996
ASSETS		
Current assets:		
Cash (note 1-E)	\$839,021	\$704,872
Investments (note 1-G)	37,144,163	44,033,164
Accounts receivable, net (note 2)	8,238,074	7,051,021
Investments in government securities (note 1-G)	3,007,035	1,443,662
Investments in prize annuities (note 1-G)	19,877,785	18,679,212
Prepaid expenses (note 1-I)	648,629	742,700
Other current assets	52,301	190,291
Total current assets	<u>69,807,008</u>	<u>72,844,922</u>
Restricted assets - investments (note 1-F)	<u>220,690</u>	<u>220,690</u>
Noncurrent assets:		
Fixed assets, net (note 1-J)	1,976,525	3,045,900
Investments in government securities (note 1-G)	10,433,445	5,987,344
Investments in prize annuities (note 1-G)	189,353,188	181,596,014
Deposits with Multi-State Lottery Association (note 1-K)	6,515,208	3,974,346
Investment in deferred compensation plan (note 4-C)		1,008,818
Total noncurrent assets	<u>208,278,366</u>	<u>195,612,422</u>
 TOTAL ASSETS	 <u>\$278,306,064</u>	 <u>\$268,678,034</u>
LIABILITIES AND RETAINED EARNINGS		
Current liabilities:		
Accounts payable	\$3,001,277	\$3,031,421
Wages and withholdings payable	262,836	24,523
Accrued transfer to state treasury	13,359,518	7,971,536
Prizes payable (note 3)	41,592,624	43,136,959
Compensated absences payable (note 1-L)	219,757	229,497
Total current liabilities	<u>58,436,012</u>	<u>54,393,936</u>
Noncurrent liabilities:		
Noncurrent prizes payable (note 3)	195,685,894	186,394,008
Retailer security deposits	389,950	380,900
Deferred compensation plan (note 4-C)		1,008,818
Total noncurrent liabilities	<u>196,075,844</u>	<u>187,783,726</u>
Total Liabilities	<u>254,511,856</u>	<u>242,177,662</u>

(Continued)

The accompanying notes are an integral part of this statement.

LOUISIANA LOTTERY CORPORATION
 STATE OF LOUISIANA
 PROPRIETARY FUND - ENTERPRISE FUND
 Balance Sheet, June 30, 1997
 (With Comparative Totals for June 30, 1996)

	<u>1997</u>	<u>1996</u>
LIABILITIES AND RETAINED EARNINGS (CONT.)		
Retained earnings:		
Unreserved (note 7)	\$23,573,518	\$26,279,682
Reserved for operating leases (note 7)	<u>220,690</u>	<u>220,690</u>
Total retained earnings	<u>23,794,208</u>	<u>26,500,372</u>
TOTAL LIABILITIES AND RETAINED EARNINGS	<u>\$278,306,064</u>	<u>\$268,678,034</u>

(Concluded)

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 Retained Earnings
For the Year Ended June 30, 1997
(With Comparative Totals for June 30, 1996)**

	<u>1997</u>	<u>1996</u>
OPERATING REVENUES		
Instant ticket sales	\$113,626,649	\$97,132,942
On-line sales	167,027,200	192,090,080
Retailer license fees	33,125	34,475
Miscellaneous revenue	12,430	23,490
Total operating revenues	<u>280,699,404</u>	<u>289,280,987</u>
OPERATING EXPENSES		
Direct costs:		
Instant ticket prize expense	57,161,250	48,650,150
On-line prize expense	82,612,019	95,939,690
Retailer commission	14,100,030	14,466,685
Retailer incentives	1,225,707	637,640
On-line vendor commission	7,407,080	8,266,184
Communications	383,374	430,154
Cost of instant tickets	1,392,989	1,851,850
Courier service	376,842	513,461
Total direct costs	<u>164,659,291</u>	<u>170,755,814</u>
Administrative expenses:		
Advertising	7,379,900	5,882,541
Bad debt expense	50,714	42,719
Contract labor	273,442	272,601
Depreciation	1,465,156	2,118,875
Equipment lease (note 6)	33,070	42,985
Insurance	260,479	273,056
Postage	52,415	55,496
Professional fees	638,925	545,164
Rent (note 6)	528,443	520,688
Repairs and maintenance	483,940	425,669
Salaries, compensation, and benefits	5,009,832	5,424,579
Supplies	430,745	507,022
Telephone	319,330	319,810
Travel	82,285	108,451

(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 Retained Earnings, 1997
(With Comparative Totals for June 30, 1996)**

	<u>1997</u>	<u>1996</u>
OPERATING EXPENSES (CONT.)		
Administrative expenses: (Cont.)		
Utilities	\$117,699	\$122,775
Other general and administrative	453,587	525,661
Total administrative expenses	<u>17,579,962</u>	<u>17,188,092</u>
Total operating expenses	<u>182,239,253</u>	<u>187,943,906</u>
OPERATING INCOME	<u>98,460,151</u>	<u>101,337,081</u>
NONOPERATING REVENUES		
Interest earned on investments	3,114,069	3,468,537
Net increase in the fair value of investments	27,217	
Gain (loss) on disposal of assets	34,372	(170,129)
Total nonoperating revenues (expenses)	<u>3,175,658</u>	<u>3,298,408</u>
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING ESTIMATES		
Bad debt recoveries	4,933	
Fixed asset recoveries (note 1-J)		15,023
Total cumulative effect of changes in accounting estimates	<u>4,933</u>	<u>15,023</u>
NET INCOME	101,640,742	104,650,512
TRANSFERS OF LOTTERY PROCEEDS TO THE STATE TREASURY (note 8)	(104,346,906)	(102,492,420)
RETAINED EARNINGS AT BEGINNING OF YEAR	<u>26,500,372</u>	<u>24,342,280</u>
RETAINED EARNINGS AT END OF YEAR	<u><u>\$23,794,208</u></u>	<u><u>\$26,500,372</u></u>

(Concluded)

The accompanying notes are an integral part of this statement.

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

**Statement of Cash Flows
For the Year Ended June 30, 1997
(With Comparative Totals for June 30, 1996)**

	<u>1997</u>	<u>1996</u>
Cash flows from operating activities:		
Operating income	\$98,460,151	\$101,337,081
Net increase in the fair value of investments	27,217	
Gain (loss) on disposal of assets	34,372	(170,129)
Cumulative effect of changes in accounting estimates	4,933	15,023
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,465,156	2,118,875
Provision for uncollectible accounts	50,714	42,719
Changes in assets and liabilities:		
(Increase) in accounts receivable	(1,237,767)	(492,514)
Decrease in prepaid expenses	94,071	506,259
(Increase) in deposits with Multi-State Lottery Association	(2,540,862)	(3,013,642)
(Increase) in investments in prize annuities	(8,955,747)	(28,458,089)
(Increase) decrease in other current assets	137,990	(113,554)
(Decrease) in accounts payable	(30,144)	(537,063)
Increase (decrease) in wages and withholdings payable	238,313	(85,227)
Increase (decrease) in accrued transfer to state treasury	5,387,982	(26,763,464)
Increase (decrease) in prizes payable	(1,544,335)	7,017,499
Increase (decrease) in compensated absences payable	(9,740)	26,358
Increase in noncurrent prizes payable	9,291,886	26,302,785
Increase in retailer security deposits	9,050	11,175
Net cash provided by operating activities	<u>100,883,240</u>	<u>77,744,092</u>
Cash flows from noncapital financing activities - payments to state treasury	<u>(104,346,906)</u>	<u>(102,492,420)</u>
Cash flows from capital and related financing activities - investments in fixed assets:		
Additions	(397,558)	(632,289)
Deletions	1,778	305,260
Net cash provided by capital financing activities	<u>(395,780)</u>	<u>(327,029)</u>

(Continued)

The accompanying notes are an integral part of this statement.

LOUISIANA LOTTERY CORPORATION
 STATE OF LOUISIANA
 PROPRIETARY FUND - ENTERPRISE FUND
 Statement of Cash Flows, 1997
 (With Comparative Totals for June 30, 1996)

	<u>1997</u>	<u>1996</u>
Cash flows from investing activities:		
Net withdrawals of short-term investments	\$6,889,000	\$29,098,174
Purchase of investments in government securities	(9,009,474)	(7,431,006)
Proceeds from maturity of investments in government securities	3,000,000	
Interest and dividends on investments	3,114,069	3,468,537
Net cash provided by investing activities	<u>3,993,595</u>	<u>25,135,705</u>
Net increase in cash	134,149	60,348
Cash and cash equivalents at July 1	<u>704,872</u>	<u>644,524</u>
Cash and cash equivalents at June 30	<u><u>\$839,021</u></u>	<u><u>\$704,872</u></u>

(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, 1997

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. Instant ticket games were first introduced on September 6, 1991; the on-line Lotto game began on January 22, 1992; and the on-line Daily Pick 3 game started on August 31, 1992. On March 5, 1995, the Corporation began two new on-line games. This includes Easy 5, a five digit Lotto game with weekly draws, and Powerball, an on-line game offered by the Multi-State Lottery Association (MUSL), an association comprised of 20 states and the District of Columbia. Daily Millions, a new on-line game offered by MUSL, began sales in Louisiana on March 16, 1997. For the fiscal years ended June 30, 1997, and June 30, 1996, the Corporation employed 142 employees and 143 employees, respectively. The Corporation is domiciled in East Baton Rouge Parish and operates six regional offices.

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 exercises oversight responsibility and has 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 services wholly within the state's boundaries. 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

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

determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, management control, accountability, or other purposes.

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 are prepared on 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 they are incurred.

Revenue Recognition

Revenue is 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.

D. LEGISLATIVE BUDGET OVERSIGHT

R.S. 47:9010(A)(7) requires the Corporation beginning on March 1, 1991, and not later than thirty days before the beginning of each subsequent 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, 1997, on March 29, 1996, and the revised budget was approved by the Joint Legislative Committee on the Budget on June 26, 1996. A formal budgetary comparison is not required by GASB reporting standards for proprietary funds and, therefore, a budgetary comparison for the fiscal year ended June 30, 1997, is not presented.

E. CASH

Cash includes petty cash and demand deposits. 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.

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

As reflected on Statement A, the Corporation has cash totaling \$839,021 at June 30, 1997, and \$704,872 at June 30, 1996. Under state law, these 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 New Orleans Branch of the Federal Reserve Bank of Atlanta. The Corporation has deposit balances (collected bank balances) of \$824,764 at June 30, 1997, and \$717,706 at June 30, 1996, secured from risk by \$100,000 of federal deposit insurance (GASB Risk Category 1) and \$724,764 of pledged securities (GASB Risk Category 1) for the fiscal year ended June 30, 1997, and \$617,706 of pledged securities (GASB Risk Category 1) for the fiscal year ended June 30, 1996.

F. RESTRICTED ASSETS - INVESTMENTS

At June 30, 1997, and June 30, 1996, the Corporation has \$220,690 in certificates of deposit, which are required as security for the letters of credit required by the Baton Rouge main office and the Monroe regional office operating leases. This asset is classified as an investment because its original maturity exceeds 90 days. The Corporation's investment is reflected at cost and is categorized to indicate the level of risk assumed by the Corporation at year-end. The securities pledged as collateral for these certificates of deposits are held in a joint safekeeping account in the name of the Corporation and the fiscal agent bank in the form of book entry deposits in the New Orleans Branch of the Federal Reserve Bank of Atlanta. Therefore, the investment balance of \$220,690 as of June 30, 1997, and June 30, 1996, was classified as GASB Risk Category 1.

G. INVESTMENTS, INVESTMENTS IN PRIZE ANNUITIES, AND INVESTMENTS IN GOVERNMENT SECURITIES

Investments in prize annuities totaling \$164,918,681 for the fiscal year ended June 30, 1997, and \$168,796,609 for the fiscal year ended June 30, 1996, 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 an instant ticket game that are payable over a 20-year period. The Corporation intends to hold these investments until maturity to fund the annual prize payments to the prize winners. Since investments in prize annuities are not held to generate income, these investments are recorded as the value of the annual prize payments net of imputed interest. The corresponding liability to the prize winners is recorded in prizes payable and disclosed in note 3. The market value of these investments at June 30, 1997, is \$159,756,720. The investments are held by a custodial bank with the Corporation maintaining exclusive control over the

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

investment in the accounts. The investments held by the custodial bank meet the criteria for GASB Risk Category 1 of Statement 3.

Investments in prize annuities totaling \$44,312,292 and \$31,478,617 for the fiscal years ended June 30, 1997, and June 30, 1996, 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. Since investments in prize annuities are not held to generate income, these investments are recorded at the value of the annual prize payments net of imputed interest. The corresponding liability to the prize winners is recorded in prizes payable and disclosed in note 3. The market value of these investments at June 30, 1997, is \$42,408,306. These investments, held in the name of MUSL and placed in trust with the Corporation as the beneficiary, are classified as GASB Risk Category 3 of Statement 3.

Investments intended to finance the operations of the Corporation are held in two portfolios. As of June 30, 1997, and June 30, 1996, investments in the first portfolio consist of short-term government securities of \$37,144,163 and \$44,033,164, respectively. These securities are in the form of mutual fund investments consisting of U.S. Treasury obligations and/or U.S. government agency obligations. The investments are not classified as to category of credit risk because this is not required by GASB Codification Section 150.165.

In the fiscal year ended June 30, 1996, the Corporation began a second portfolio consisting of direct investments in U.S. Treasury obligations. For the fiscal years ending June 30, 1997, and June 30, 1996, these investments totaled \$13,440,480 (\$3,007,035, current; \$10,433,445, noncurrent) and \$7,431,006 (\$1,443,662, current; \$5,987,344, noncurrent), respectively, with a range in maturity from 270 days to 5 years. These securities are recorded at fair value. The investments held by the custodial bank meet the criteria for GASB Risk Category 1 of Statement 3.

H. ALLOWANCE FOR DOUBTFUL ACCOUNTS

The allowance for doubtful accounts (note 2) is based on an analysis of accounts receivable that considers the age of the accounts and the expected collectibility of each account.

I. PREPAID EXPENSES

Prepaid expenses represent insurance paid for coverage after the fiscal year-end, miscellaneous prepaid supplies, and unsold instant ticket inventory held by the Louisiana Lottery Corporation and its licensed retailers as follows. Inventories are

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

valued at cost and are expensed over the life of each game as it is sold to the public. Unused and returned tickets are written off at the end of each game.

	<u>1997</u>	<u>1996</u>
Ticket inventory	\$579,334	\$685,628
Insurance	49,303	52,418
Miscellaneous	<u>19,992</u>	<u>4,654</u>
Total	<u>\$648,629</u>	<u>\$742,700</u>

J. FIXED ASSETS

Fixed assets of the Corporation are included on the balance sheet at historical cost. Depreciation of all fixed assets is charged as an operating expense. Accumulated depreciation is reported on the balance sheet. 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 fixed assets follows:

	<u>Balance June 30, 1996</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 1997</u>
Automobiles	\$1,014,327	\$90,294	(\$159,196)	\$945,425
Data processing software and equipment	8,537,230	283,435	(6,278)	8,814,387
Equipment	1,307,354	1,318	(4,500)	1,304,172
Furniture and fixtures	382,171			382,171
Leasehold improvements	757,496	16,574	(1,318)	772,752
Communications	244,043	5,938		249,981
Total	<u>12,242,621</u>	<u>397,559</u>	<u>(171,292)</u>	<u>12,468,888</u>
Less - accumulated depreciation	<u>(9,196,721)</u>	<u>(1,465,156)</u>	<u>169,514</u>	<u>(10,492,363)</u>
Net Fixed Assets	<u>\$3,045,900</u>	<u>(\$1,067,597)</u>	<u>(\$1,778)</u>	<u>\$1,976,525</u>

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

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

Automobiles	36 months
Data processing equipment	60 months
Data processing software	36 months
Equipment	60 months
Furniture and fixtures	60 months
Leasehold improvements	36 months
Communications	60 months

For the fiscal years ended June 30, 1996, the Corporation recovered \$15,023 of instant ticket validation units and printers that had been written off in previous years. These amounts are listed as fixed asset recoveries within the Statement of Revenues, Expenses, and Changes in Retained Earnings.

K. 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 21 state lottery entities and the District of Columbia and sells two games known as Powerball and Daily Millions. The chief executive officer of each member lottery serves on the MUSL board of directors.

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 for the Powerball game and has agreed to contribute the required funds for the Daily Millions game by March 16, 1998. As of June 30, 1997, and June 30, 1996, the balance of the prize reserve payable is \$6,332,706 and \$4,797,994, respectively, as shown in long-term prizes payable in note 3.

As of June 30, 1997, and June 30, 1996, the Corporation had deposits of \$6,515,208 and \$3,974,346, respectively, with MUSL, representing the Corporation's deposits of reserve funds and the deposit for the Corporation's share of MUSL's fixed assets and related interest earnings on these funds.

A copy of the MUSL financial statements may be obtained by submitting a written request to MUSL, 1200 35th Street, Suite 701, West Des Moines, Iowa 50266-1908.

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

L. 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 one year of service, measured from the date of hire, before they are eligible to use accrued 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 the current year's unused 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, 1997, and June 30, 1996, the total value of compensated absences payable were \$219,757 and \$229,497, respectively.

2. RECEIVABLES

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

	As of June 30, 1997	As of June 30, 1996
Accounts receivable	\$8,038,742	\$6,808,476
Other receivable	5,738	1,762
Interest receivable	235,400	300,202
Allowance for doubtful accounts	(41,806)	(59,419)
Total	<u>\$8,238,074</u>	<u>\$7,051,021</u>

3. 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 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

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

Corporation. The Lotto grand prize payable is recorded at the value of the annual prize payments net of imputed interest.

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.

For the fiscal year ended June 30, 1997, and June 30, 1996, the Corporation had one and two Powerball grand prize winners, respectively. The MUSL purchased U.S. Treasury zero coupon bonds to fund the grand prizes that are payable over 20 years. After the bonds mature, the funds are transferred to the Corporation for the annual prize payments to the winners. Investments in these prize annuities are recorded at the value of the annual prize payments net of imputed interest.

An instant ticket game "Streetcar Named Retire" was introduced on February 7, 1994. The top prize of this game was \$1,000 per week for 20 years payable annually. The first installment was paid on the day the prize was claimed. The 19 subsequent equal annual payments are funded with U.S. Treasury zero coupon bonds purchased by the Louisiana Lottery Corporation. The prize payable is recorded at the value of the annual prize payments net of imputed interest.

	June 30, 1997	June 30, 1996
Current prizes payable:		
Annual prize payments (face value)	\$20,361,000	\$19,186,000
Less imputed interest	(483,215)	(506,788)
Net present value of annual prize payments	19,877,785	18,679,212
Instant prizes payable	5,969,152	10,332,118
On-line prizes payable	14,775,810	12,538,668
MUSL prize payable	969,877	1,586,961
Total current prizes payable	<u>\$41,592,624</u>	<u>\$43,136,959</u>
Long-term prizes payable:		
Annual prize payments (face value)	\$306,198,000	\$304,234,000
Less imputed interest	(116,844,812)	(122,637,986)
Net present value of long-term annual prize payments	189,353,188	181,596,014
MUSL prize reserve payable	6,332,706	4,797,994
Net present value of long-term annual prize payments	<u>\$195,685,894</u>	<u>\$186,394,008</u>

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

4. RETIREMENT BENEFITS

A. AUTHORIZATION

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. A financial and compliance audit has been performed on all the Corporation's retirement plans described below for the plans' year ending December 31, 1996. A copy of the audit reports may be obtained by submitting a written request to the Louisiana Lottery Corporation, 11200 Industriplex Boulevard, Suite 190, Baton Rouge, LA 70809-4110.

B. SUPPLEMENTAL RETIREMENT

The Corporation has a defined contribution retirement plan that covers substantially all full-time employees. The plan is operated on a calendar year basis with the exception of the first year that began on July 1, 1991, and ended December 31, 1991. Under the terms of the plan, for the plan year commencing July 1, 1991, and thereafter, the Corporation contributes 4.5 percent of each participant's compensation for the year. Employees are not permitted to contribute to the plan. For the plan year beginning July 1, 1991, all eligible employees employed by the Corporation on or before such date shall participate in the plan as of such date. Effective for the January 1, 1992, entry date, all eligible employees employed before such date shall automatically participate in the plan as of that date. Thereafter, 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 percent 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 date or upon the completion of three years of service. A year of service is a plan year in which a participant is credited with 1,000 hours of service. Each participant employed by the Corporation before January 1, 1992, shall be credited with a special year of service if the employee completed at least 500 hours of service before such date. 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 employer.

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

This plan is accounted for using the accrual method of accounting in accordance with generally accepted accounting principles, and the fair value of the plan assets is based on the current market for those assets as listed below. A majority of the plan assets is invested in the One Group family of mutual funds.

For the fiscal year ended June 30, 1997, total payroll was \$3,976,987, and the Corporation's contributions for the supplemental retirement plan were calculated using the participants' compensation of \$3,448,736. Employer contributions to the supplemental plan totaled \$155,193. The market value of the total assets of the plan as of June 30, 1997, was \$1,384,385.

For the fiscal year ended June 30, 1996, the total payroll was \$4,224,708, and the Corporation's contributions for the supplemental retirement plan were calculated using the participants' compensation of \$3,860,355. Employer contributions to the supplemental plan totaled \$173,716. The market value of the total assets of the plan as of June 30, 1996, was \$1,238,964.

**C. OPTIONAL SAVINGS PLAN
(DEFERRED COMPENSATION PLAN)**

Certain employees of the Corporation participate in the Louisiana Lottery Corporation Deferred Compensation Plan adopted under the provisions of Internal Revenue Code (IRC) Section 457. The plan is operated on a calendar year basis. 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. Employees employed by the Corporation as of December 15, 1991, shall be eligible to participate in the plan as of January 1, 1992. Participants may annually defer a maximum of \$7,500 of compensation. The Corporation contributes a matching contribution equal to the amount of compensation deferred by each participant up to 2.5 percent of each participant's compensation as reported on Internal Revenue Service (IRS) Form W-2.

A participant's matching contribution account shall be fully vested and nonforfeitable upon such participant's death, disability, or attainment of the normal retirement date or upon the completion of three years of service. A year of service is a plan year in which a participant is credited with 1,000 hours of service. Each participant employed by the Corporation before January 1, 1992, shall be credited with a special year of service if the employee completed at least 500 hours of service before such date. Any forfeiture of nonvested amounts shall be 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 Corporation until paid or made available to participants, subject only to the claims of the Corporation'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 Deferred Compensation Plan on January 1, 1997, to reflect this change in the IRC. As a result of this amendment, the Deferred Compensation Plan is no longer an asset of the Corporation with a corresponding liability to the participants, and is therefore removed from the financial statements of the Corporation for the fiscal year ending June 30, 1997.

This plan is accounted for using the accrual method of accounting in accordance with generally accepted accounting principles, and the fair value of the plan assets is based on the current market for those assets as listed below. A majority of the plan assets is invested in the One Group family of mutual funds.

For the fiscal year ended June 30, 1997, employer and employee contributions were \$77,747 and \$130,354, respectively. The market value of plan assets at June 30, 1997, is \$1,142,343.

For the fiscal year ended June 30, 1996, employer and employee contributions were \$84,543 and \$141,411, respectively. The market value of plan assets at June 30, 1996, is \$1,008,818.

D. BASIC RETIREMENT PLAN

The employees of the Louisiana Lottery Corporation have elected to establish a money purchase plan under Section 401(a) of the Internal Revenue Code of 1986, as amended, which plan 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, 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. The plan operates on a calendar year with the exception of the first year that began September 1, 1993, and ended December 31, 1993.

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.

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

A participant is vested immediately. In no event shall the assets of this plan revert to the benefit of the employer. 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 defined in the basic retirement plan, the employer's contribution shall be 5 percent of the participant's compensation for such plan year. The employee's contribution shall equal 6.2 percent of his/her compensation for such plan year. As of June 1, 1994, the Corporation elected to treat all contributions to the basic retirement plan as pre-tax.

This plan is accounted for using the accrual method of accounting in accordance with generally accepted accounting principles, and the fair value of the plan assets is based on the current market for those assets as listed below. A majority of the plan assets is invested in the One Group.

For the fiscal year ended June 30, 1997, the total payroll was \$3,976,987, and the contributions for the basic retirement plan were calculated using the participants' compensation of \$3,885,417. The employer and employee contributions were \$194,272 and \$240,896, respectively. The market value of the total assets of the plan as of June 30, 1997, was \$1,538,146.

For the fiscal year ended June 30, 1996, the total payroll was \$4,224,708, and the contributions for the basic retirement plan were calculated using the participants' compensation of \$4,102,759. The employer and employee contributions were \$205,249 and \$254,372, respectively. The market value of the total assets of the plan as of June 30, 1996, was \$1,258,029.

5. LITIGATION

The Corporation has been named in six lawsuits. For four 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 two lawsuits, the Corporation's legal counsel does not anticipate a potential loss to the Corporation resulting from this lawsuit.

6. LEASE AND RENTAL COMMITMENTS

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

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

	<u>Equipment</u>	<u>Facilities</u>	<u>Total</u>
1997-98	\$19,866	\$607,236	\$627,102
1998-99	14,246	564,336	578,582
1999-2000	953	221,534	222,487
2000-2001		62,062	62,062
2001-2002		9,624	9,624

The total operating lease and rent payments for the years ended June 30, 1997, and June 30, 1996, were \$561,513 and \$563,672, respectively.

The Corporation has no capital leases at June 30, 1997.

7. RETAINED EARNINGS

The Corporation had unreserved retained earnings for the fiscal year June 30, 1997, of \$23,573,518. As presented in the 1997-98 fiscal year budget approved by the Joint Legislative Committee on the Budget on June 2, 1997, management has specified that retained earnings of June 30, 1997, be used for the following purposes:

Cost of fixed assets (net of accumulated depreciation)	\$2,803,000
Fixed asset replacement reserve	5,200,000
Instant ticket inventory	660,000
Litigation and loss reserve	5,000,000
New capital expenditure purchases	402,000
Permanent facilities	5,000,000
Play centers	400,000
Instant ticket dispensers	300,000
Deposits	35,584
Retailer performance incentive programs	1,500,000
Rounding difference	228
Total budgeted retained earnings	<u>21,300,812</u>
Less - difference in budgeted retained earnings and actual	<u>2,272,706</u>
Total unreserved retained earnings	<u><u>\$23,573,518</u></u>

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

The reserve for operating leases of \$220,690 represents security pledged against a letter of credit required by the Baton Rouge main office and the Monroe regional office operating leases.

8. TRANSFERS TO THE STATE TREASURY

The Corporation is required to transfer each year not less than 35 percent of gross revenues to the state treasury. R.S. 47:9029(A)(3) requires monthly transfers to the state treasury. For the fiscal years ended June 30, 1997, and June 30, 1996, the total amount transferred to the state was \$104.3 million and \$102.5 million, respectively.

9. 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 monthly for the first 18 months and bimonthly thereafter 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, 1997**

SCHEDULE OF PROFESSIONAL SERVICE FEES

Schedule 1 presents professional service fees for the year ended June 30, 1997. 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 year ended June 30, 1997. 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, 1997
(With Comparative Totals for June 30, 1996)**

	<u>JUNE 30, 1997</u>	<u>JUNE 30, 1996</u>
Abbott & Hayne, Counselors-at-Law - legal counsel	\$14,999	\$8,089
Affiliated Forensic - compliance testing of instant games	4,750	10,000
Attorney General's Office, Department of Justice - legal counsel	88,875	82,063
Bauerlein - marketing research	447	21,768
Battelle, Incorporated - consulting services for on-line system	101,094	41,420
Benchmarks, Incorporated - consulting services for evaluation of instant sales		31,500
Chenevert/Soderberg, Architects - space study and compliance with the American Disabilities Act		1,856
Department of Agriculture and Forestry - weight testing of Lotto and Easy 5 balls		300
Department of Revenue and Taxation - retailer background investigations	11,795	8,488
Dittler Brothers, Incorporated - marketing research	88,404	
Evaluation, Inc. - consulting services for RFP evaluations		24,600
Gulf Computer Systems - consulting services for network		2,750
KPMG Peat Marwick Thorne - Certified Public Accountants acceptance testing - Automated Drawing Machine	10,800	13,900
Martin E. Segal Company - benefit plan development	12,328	2,371
Office of Legislative Auditor - financial and compliance audit and observations of on-line drawings	119,971	115,012
Office of State Police, Department of Public Safety and Corrections - retailer and employee background investigations	20	
Phelps Dunbar, Counselors-at-Law - legal counselors	151,993	137,279
Pravel, Hewitt, Kimball & Krieger, Counselors-at-Law - legal counselors	9,724	12,049
SSA Consultants, Incorporated - long range planning	5,707	1,500
T-R Associates - consulting services for evaluation of marketing plan		19,200
William M. Mercer, Incorporated - salary administration and compensation program	18,018	11,019
	<u>18,018</u>	<u>11,019</u>
Total	<u>\$638,925</u>	<u>\$545,164</u>

LOUISIANA LOTTERY CORPORATION
STATE OF LOUISIANA

Schedule of Compensation Paid Board Members
For the Year Ended June 30, 1997
(With Comparative Totals for June 30, 1996)

	<u>EFFECTIVE DATE OF TERM</u>	<u>EXPIRATION DATE OF TERM</u>	<u>JUNE 30, 1997</u>	<u>JUNE 30, 1996</u>
Joseph Bouie, Jr., Chairperson through January 25, 1996	January 28, 1993	February 21, 1997*	\$10,000	\$20,672
James David Cain, Jr.	January 1, 1995		15,000	15,000
Andrea W. Cavin	July 16, 1992	Resigned March 1, 1996		10,000
Luther F. Cole	January 1, 1995	Resigned April 22, 1996		12,167
Stewart Gentry, Chairperson effective January 26, 1996	June 24, 1994		19,704	19,328
Harold Hebert, Chairperson effective January 26, 1997	January 19, 1993		20,296	15,000
Jewel J. Newman	April 26, 1995		15,000	15,000
Lamar Poole	January 1, 1995		15,000	15,000
Nicholas Smith	January 12, 1994		15,000	15,000
Lyn Hayward	March 26, 1996		15,000	3,992
Peggy Persac	July 17, 1996		14,355	
Patricia C. Mason	February 27, 1997		4,860	
Total			<u>\$144,215</u>	<u>\$141,159</u>

*Terms expired pursuant to Louisiana Revised Statute 47:9004.

**OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

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



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

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

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (504) 339-3800
FACSIMILE: (504) 339-3870

September 5, 1997

Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of the
General Purpose Financial Statements

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

We have audited the general purpose financial statements of the Louisiana Lottery Corporation, a component unit of the State of Louisiana, as of and for the year ended June 30, 1997, and have issued our report thereon dated September 5, 1997. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Louisiana Lottery Corporation's general purpose 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's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose 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 general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their

EXHIBIT A

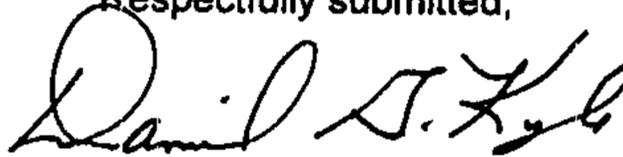
LEGISLATIVE AUDITOR

BOARD OF DIRECTORS
LOUISIANA LOTTERY CORPORATION
STATE OF LOUISIANA
Compliance and Internal Control Report
September 5, 1997
Page 2

assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

Respectfully submitted,

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

Daniel G. Kyle, CPA, CFE
Legislative Auditor

MMG:THC:dl

[LOTTERY]

EXHIBIT A