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**LOUISIANA  
LOTTERY**  
CORPORATION

**LOUISIANA LOTTERY CORPORATION  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 1998**

**LOUISIANA LOTTERY CORPORATION**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 1998**

**PREPARED BY ACCOUNTING DEPARTMENT**

**KAREN B. FOURNET**

**SENIOR VICE PRESIDENT**

**SECRETARY TREASURER**

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January 22, 1999

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

## **INTRODUCTION**

The Louisiana Lottery Corporation is pleased to submit its Comprehensive Annual Financial Report for the fiscal year ended June 30, 1998. Lottery management is responsible for the accuracy and completeness of all data and disclosures in this report. To the best of our knowledge, the information presented is accurate and complete in all material respects and fairly depicts the financial activities and position of the Lottery.

This report is organized into three sections. The introductory part includes this letter of transmittal and an organizational chart. The financial section includes the independent auditor's report and the audited financial statements with accompanying notes. Historical, demographic, and industry comparative data is presented in the statistical section of this report.

The Louisiana Lottery Corporation was created in October, 1990, and began operating on January 15, 1991. Ticket sales began on September 6, 1991. The Lottery is considered a component unit of the State of Louisiana and is reported as an enterprise fund within the State's Comprehensive Annual Financial Report. The fund is operated in a manner similar to a private business enterprise.

During its seven years of operation, the Lottery has offered a variety of instant and online products. The instant games consist of preprinted "scratch-off" tickets, which contain various symbols and captions covered by latex material. Players instantly determine the winning or non-winning status of their tickets by removing the latex. Online game tickets are produced through terminals at lottery retailer locations based on player instructions for number selection. Drawings are conducted to determine winning combinations. Historical data for all lottery products is presented in the financial and statistical sections of this report.

## MAJOR ACCOMPLISHMENTS

Total fiscal year 1998 sales surpassed prior year sales by 4.36% and budgeted sales by 6.11%. The \$292.9 million total marks the highest sales generated since fiscal year 1995, and the first time sales have exceeded a full prior year since the Lottery's inception. Game design enhancements and the seeding of prize structures with unclaimed prize funds have resulted in significant instant ticket sales increases. In addition, online sales have been strengthened by Powerball game modifications implemented in November, 1997.

Operating expenses were at an all-time low in fiscal year 1998 at \$25.8 million. Significant reductions have freed up resources for important programs and needs such as enhanced game prize structures and retailer compensation. Advertising agency fees have been reduced with the award of separate new contracts for creative/production and media placement services. Annual savings were negotiated with the extension of the instant ticket printing agreement. The consolidation of point-of-sale material printing has resulted in significant volume discounts. In addition, savings in online communication fees have been passed on to our retailers through the reduction of their weekly line charge.

Distributions to the state treasury totaled \$108 million in fiscal year 1998. These transfers represent an increase of \$3.7 million over prior year transfers and \$10.3 million over budgeted transfers. In addition, these distributions included \$4.3 million above and beyond the 35% of gross revenues required by statute. This brings the total amount of state transfers over the 35% requirement since inception to \$27.9 million.

Other significant accomplishments in fiscal year 1998 included the following:

- The Corporation introduced the first phase of its identity advertising campaign and has redirected its marketing efforts in a more socially responsible and acceptable manner.
- The procurement process for online computer system services culminated with the successful negotiation and signing of a new seven year online service agreement.
- Periodic retailer advisory meetings which provide forums for exchanging information and enhancing our business relationships with the Lottery's retailer partners were reestablished.
- Operational efficiencies were achieved in the implementation of bar-coded delivery documents for instant ticket courier deliveries and a conversion to a Windows version general ledger accounting package.

## **FINANCIAL INFORMATION**

### **Enterprise Operations:**

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

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

### **Internal Control Framework:**

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

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

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

- human resources and payroll processing
- daily cash management and bank account reconciliations
- cash disbursement authorization and bank account reconciliations
- purchasing and accounts payable
- cash disbursement authorization and accounts payable
- retailer licensing and retailer accounts receivable
- general ledger accounts receivable and retailer accounts receivable
- data center processing and programming
- drawing department and information systems department

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

**Budgetary Controls:**

The Corporation is required to submit its annual fiscal year budget to the Board of Directors and the Joint Legislative Committee on the Budget for review and approval. All levels of management are involved in the budgeting process. Available resources are determined based on projected revenue and are allocated to specific areas based on the goals and objectives contained in the Lottery's annual business plan. Operational efficiency is emphasized in order to direct resources to areas that are expected to maximize revenues, profitability, and the return to the State of Louisiana.

Actual performance is compared to the approved budget on a monthly basis by department managers and senior management. Variances are monitored and future plans are reviewed for potential adjustments.

**Debt Administration:**

Lotto and Powerball game grand prize winner installment obligations are funded by investments in U.S. Treasury zero coupon bonds as required by statute. These liabilities are paid as the bonds mature at or near the winning draw date anniversaries.

**Cash Management:**

Cash due from retailers for lottery transactions is collected on a weekly basis through an electronic funds transfer system and deposited into an operating account. Operating cash balances are used to fund daily lottery operations such as prize and vendor payments. Minimal operating account balances are maintained and are invested overnight in U.S. government securities repurchase agreements. Excess operating funds are invested daily in short term U.S. government securities money market mutual funds. Funds not needed for liquidity purposes are invested in a portfolio of long term U.S. government and agency securities. All investment purchases are restricted by guidelines contained in a board-adopted Investment Policy Statement and all associated state statutes.

**Risk Management:**

The Lottery has purchased various commercial insurance policies for protection from significant economic loss. These policies include coverage for standard automobile liability, general liability, worker's compensation claims, property, electronic data processing equipment, employee crimes against the corporation, and directors and officers liability. In addition, contracts for major purchases of goods or services contain requirements for vendor indemnification of the Lottery and vendor insurance and

performance bond coverages. Management has also segregated a portion of retained earnings for a litigation and prize reserve to cover unanticipated losses.

## **ECONOMIC CONDITION AND OUTLOOK**

The local, regional, state and national economies have been in a sustained growth pattern. Unemployment has been down, and the inflation rate has remained low and stable. This pattern may continue, but the current global growth slowdown could have a negative impact on the United States economy. In addition, the continued decline of oil prices could create an economic slowdown in Louisiana.

Competitor trends and events may also affect the performance of the Louisiana Lottery. The video poker industry, riverboat casinos, and Indian casinos continue to perform well and are strong competition for gaming dollars. Video poker is scheduled to be eliminated in several parishes in 1999 due to a referendum that was adopted by voters in these parishes in November, 1997. At this time, the effect of this event on Lottery sales cannot be determined.

## **MAJOR INITIATIVES**

Management prepared a business plan for the 1999 fiscal year in June, 1998. This plan contains the Corporation's objectives and goals for the new year. Several of the major initiatives contained in the plan include the following:

- Secure legislative oversight approval and successfully introduce two new online games, Cash Quest and Pick 4.
- Identify and promulgate (through the Administrative Procedures Act and Board action) changes to rules, regulations, and corporate bylaws to improve efficiency of operations, enhance business relationships (with players, retailers, and vendors), and eliminate ambiguous and impractical requirements.
- Obtain approval from the Joint Legislative Committee on the Budget to proceed with plans to acquire a permanent headquarters facility that meets the Corporation's long term business needs.
- Identify and resolve all software concerns to insure a smooth and seamless transition from 1999 to the year 2000 without any interruption of services.

The Cash Quest online game was successfully implemented in October, 1998. The other projects mentioned above are currently in progress.

## INDEPENDENT AUDIT

The Louisiana Legislative Auditor performs an annual audit of the Lottery's financial statements as required by Louisiana statutes. The audits are conducted in accordance with generally accepted auditing standards and generally accepted government auditing standards. The independent auditor's opinion on the Lottery's financial statements for the years ended June 30, 1998 and June 30, 1997 is included in the financial section of this report.

## ACKNOWLEDGMENTS

The Accounting Department staff prepared each section of the Comprehensive Annual Financial Report. Their efforts have greatly contributed to the success of this informative document. In addition, we appreciate the efforts of the Legislative Auditor's Office in providing assistance with technical requirements.

We are committed to providing thorough and relevant financial information to the users of our financial statements. Our preparation of this Comprehensive Annual Financial Report reflects this commitment. *The additional presentations and disclosures required* will assist readers in obtaining an understanding of the Lottery's historical and current financial results.

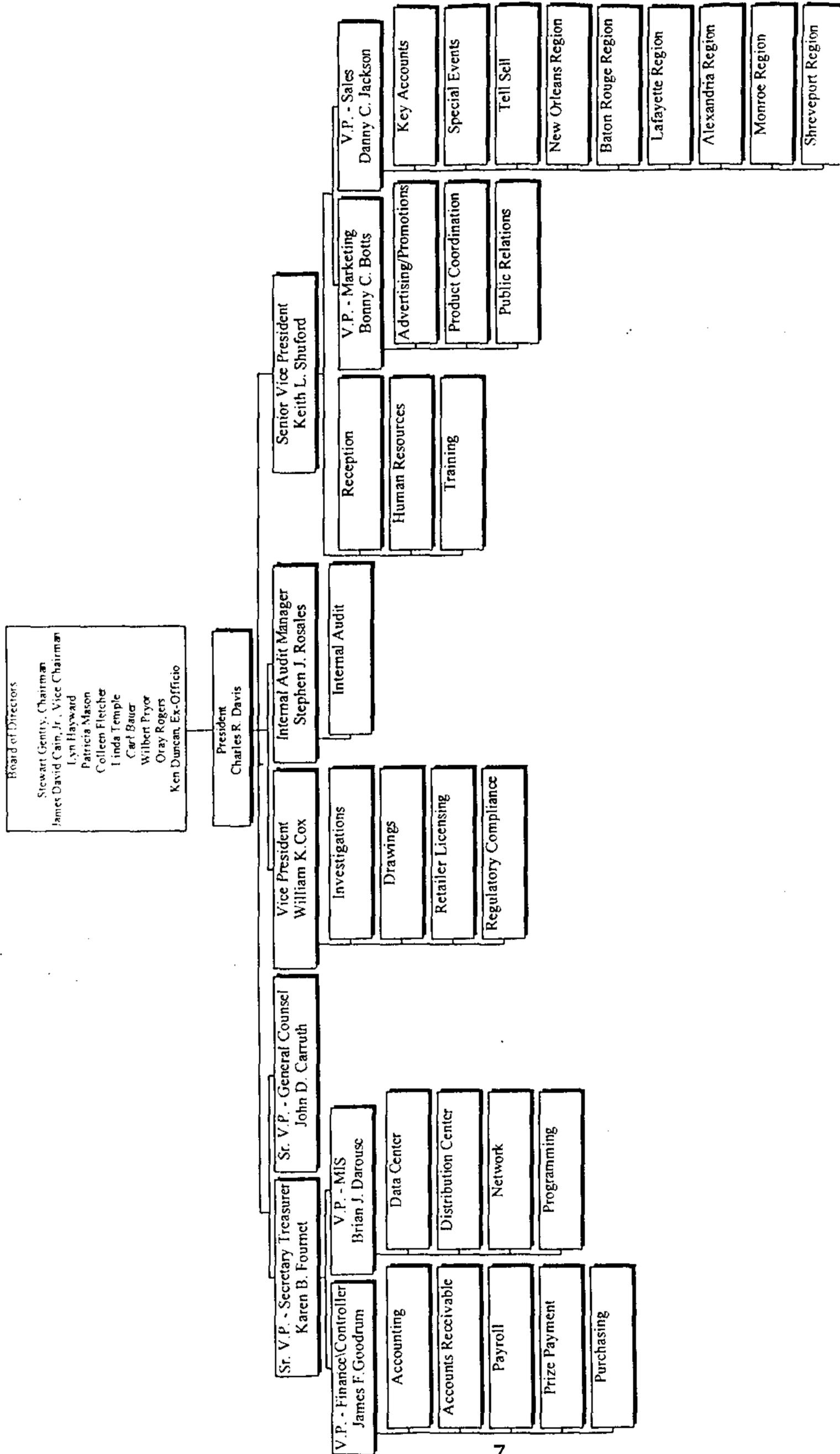
Respectfully submitted,

LOUISIANA LOTTERY CORPORATION



Karen B. Fournet  
Senior Vice President and Secretary Treasurer

**LOUISIANA LOTTERY CORPORATION  
Organizational Chart with Principal Officials**



## FINANCIAL SECTION



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

OFFICE OF  
**LEGISLATIVE AUDITOR**  
STATE OF LOUISIANA  
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September 11, 1998

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, 1998, and June 30, 1997, 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 audit.

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, 1998, and June 30, 1997, and the results of operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

As discussed in notes 5 and 10 to the financial statements, the Louisiana Lottery Corporation implemented the reporting requirements of Statement 31 of the Governmental Accounting Standards Board for 1998 and 1997.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 11, 1998, 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, 1998

*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.*

The introductory section and the statistical section listed in the table of contents were not audited by us, and, accordingly, we do not express an opinion on them.

Respectfully submitted,



Daniel G. Kyle, CPA, CFE  
Legislative Auditor

MMG:THC:RCL:dl

[LOTTERY]

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

**Balance Sheet, June 30, 1998  
(With Comparative Totals for June 30, 1997)**

	<u>1998</u>	<u>1997</u>
<b>ASSETS</b>		
Current assets:		
Cash (note 2)	\$95,781	\$839,021
Investments (note 3)	37,408,829	37,144,163
Accounts receivable, net (note 4)	9,107,631	8,238,074
Investments in government securities (note 3)	3,004,681	3,007,035
Investments in prize annuities (note 5)	21,186,801	19,829,462
Prepaid expenses (note 6)	825,256	648,629
Other current assets	69,434	52,301
Total current assets	<u>71,698,413</u>	<u>69,758,685</u>
Restricted assets - investments (note 7)	<u>180,690</u>	<u>220,690</u>
Noncurrent assets:		
Fixed assets, net (note 8)	1,241,856	1,976,525
Investments in government securities (note 3)	10,662,194	10,433,445
Investments in prize annuities (note 5)	202,454,448	182,335,565
Deposits with Multi-State Lottery Association (note 9)	6,972,775	6,515,208
Total noncurrent assets	<u>221,331,273</u>	<u>201,260,743</u>
 TOTAL ASSETS	 <u>\$293,210,376</u>	 <u>\$271,240,118</u>
<b>LIABILITIES AND RETAINED EARNINGS</b>		
Current liabilities:		
Accounts payable	\$2,600,628	\$3,001,277
Wages, benefits, and withholdings payable	358,845	154,765
Accrued transfer to state treasury	12,079,589	13,359,518
Prizes and withholdings payable (note 10)	45,546,520	41,652,372
Compensated absences payable (note 11)	228,779	219,757
Total current liabilities	<u>60,814,361</u>	<u>58,387,689</u>
Noncurrent liabilities:		
Noncurrent prizes payable (note 10)	209,012,517	188,668,271
Retailer security deposits	401,725	389,950
Total noncurrent liabilities	<u>209,414,242</u>	<u>189,058,221</u>
Total Liabilities	<u>270,228,603</u>	<u>247,445,910</u>
Retained earnings:		
Unreserved (note 16)	22,801,083	23,573,518
Reserved for operating leases (note 16)	180,690	220,690
Total retained earnings	<u>22,981,773</u>	<u>23,794,208</u>
 TOTAL LIABILITIES AND RETAINED EARNINGS	 <u>\$293,210,376</u>	 <u>\$271,240,118</u>

The accompanying notes are an integral part of this statement.

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

**Statement B**

**Statement of Revenues, Expenses, and  
Changes in Retained Earnings  
For the Year Ended June 30, 1998  
(With Comparative Totals for June 30, 1997)**

	<u>1998</u>	<u>1997</u>
<b>OPERATING REVENUES</b>		
Instant ticket sales	\$123,273,680	\$113,626,649
On-line sales	169,621,911	167,027,200
Retailer license fees	34,075	33,125
Miscellaneous revenue	16,372	12,430
Total operating revenues	<u>292,946,038</u>	<u>280,699,404</u>
<b>OPERATING EXPENSES</b>		
Direct costs:		
Instant ticket prize expense	63,823,911	57,161,250
On-line prize expense	83,247,901	82,612,019
Retailer commission	14,901,052	14,100,030
Retailer incentives	1,369,624	1,225,707
On-line vendor commission	6,315,760	7,407,080
Communications	136,414	383,374
Cost of instant tickets	1,729,331	1,392,989
Courier service	387,994	376,842
Total direct costs	<u>171,911,987</u>	<u>164,659,291</u>
Administrative expenses:		
Advertising	7,159,722	7,379,900
Bad debt expense	48,841	50,714
Contract labor	303,248	273,442
Depreciation	1,040,192	1,465,156
Equipment lease (note 15)	31,995	33,070
Insurance	254,089	260,479
Postage	49,754	52,415
Professional fees	485,779	638,925
Rent (note 15)	618,215	528,443
Repairs and maintenance	435,524	483,940
Salaries, benefits, and taxes	5,179,360	5,009,832
Supplies	471,622	430,745
Telephone	386,736	319,330
Travel	69,918	82,285
Utilities	118,099	117,699
Other general and administrative	474,707	453,587
Total administrative expenses	<u>17,127,801</u>	<u>17,579,962</u>
Total operating expenses	<u>189,039,788</u>	<u>182,239,253</u>

(Continued)

The accompanying notes are an integral part of this statement.

LOUISIANA LOTTERY CORPORATION  
 STATE OF LOUISIANA  
 PROPRIETARY FUND - ENTERPRISE FUND  
 Statement of Revenues, Expenses, and  
 Changes in Retained Earnings, 1998  
 (With Comparative Totals for June 30, 1997)

	<u>1998</u>	<u>1997</u>
<b>OPERATING INCOME</b>	<u>\$103,906,250</u>	<u>\$98,460,151</u>
<b>NONOPERATING REVENUES</b>		
Interest earned on investments	3,210,947	3,114,069
Net increase in the fair value of investments	174,129	27,217
Gain (loss) on disposal of assets	(68,711)	34,372
Total nonoperating revenues (expenses)	<u>3,316,365</u>	<u>3,175,658</u>
<b>CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING ESTIMATES</b>		
Bad debt recoveries	<u>3,502</u>	<u>4,933</u>
<b>NET INCOME</b>	107,226,117	101,640,742
<b>TRANSFERS OF LOTTERY PROCEEDS TO THE STATE TREASURY (note 17)</b>	(108,038,552)	(104,346,906)
<b>RETAINED EARNINGS AT BEGINNING OF YEAR</b>	<u>23,794,208</u>	<u>26,500,372</u>
<b>RETAINED EARNINGS AT END OF YEAR</b>	<u><u>\$22,981,773</u></u>	<u><u>\$23,794,208</u></u>

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

**Statement of Cash Flows  
For the Year Ended June 30, 1998  
(With Comparative Totals for June 30, 1997)**

	1998	1997
Cash flows from operating activities - operating income	\$103,906,250	\$98,460,151
Net increase in the fair value of investments	174,129	27,217
Cumulative effect of changes in accounting estimates	3,502	4,933
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,040,192	1,465,156
Provision for uncollectible accounts	48,841	50,714
Changes in assets and liabilities:		
(Increase) in accounts receivable	(918,397)	(1,237,767)
(Increase) decrease in prepaid expenses	(176,626)	94,071
(Increase) decrease in other current assets	(17,132)	137,990
(Increase) in investments in prize annuities	(21,476,222)	(1,889,801)
(Increase) in deposits with Multi-State Lottery Association	(471,379)	(2,540,862)
Decrease in investments securing leases	40,000	
(Decrease) in accounts payable	(400,649)	(30,144)
Increase in wages, benefits, and withholdings payable	204,078	130,243
Increase (decrease) in compensated absences payable	9,021	(9,740)
Increase (decrease) in prizes and withholdings payable	3,894,147	(1,484,587)
Increase (decrease) in accrued transfer to state treasury	(1,279,929)	5,387,982
Increase in noncurrent prizes payable	20,344,246	2,274,262
Increase in retailer security deposits	11,775	9,050
Net cash provided by operating activities	<u>104,935,847</u>	<u>100,848,868</u>
Cash flows from noncapital financing activities - payments to state treasury	<u>(108,038,552)</u>	<u>(104,346,906)</u>
Cash flows from capital and related financing activities:		
Purchases of fixed assets	(388,193)	(397,558)
Proceeds from sale of fixed assets	27,770	36,150
Net cash provided by capital financing activities	<u>(360,423)</u>	<u>(361,408)</u>
Cash flows from investing activities:		
Net (purchases) withdrawals of short-term investments	(264,666)	6,889,000
Purchase of investments in government securities	(3,226,393)	(9,009,474)
Maturity of investments in government securities	3,000,000	3,000,000
Interest and dividends on investments	3,210,947	3,114,069
Net cash provided by investing activities	<u>2,719,888</u>	<u>3,993,595</u>
Net increase in cash	(743,240)	134,149
Cash at July 1	<u>839,021</u>	<u>704,872</u>
Cash at June 30	<u>\$95,781</u>	<u>\$839,021</u>
<b>Noncash Investing, Capital and Financing Activities</b>		
Fixed asset disposals	\$96,481	\$1,778

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, 1998

**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, Easy 5, a 5 digit lotto game, 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, an on-line game offered by MUSL, was introduced in Louisiana on March 16, 1997, and was discontinued on March 29, 1998. For the fiscal years ended June 30, 1998, and June 30, 1997, the Corporation employed 140 employees and 142 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 has financial accountability for fiscal matters as follows: (1) the board of directors is appointed by the governor; (2) upon dissolution of the Corporation, title to all property owned by the Corporation shall vest in the State of Louisiana; and (3) the Corporation provides financial benefits to the state in the form of transfer of funds to the state treasury. The accompanying financial statements present information only as to the transactions of the programs of the Louisiana Lottery Corporation, a component unit of the State of Louisiana. The Corporation is reported as an enterprise fund within the State of Louisiana's Comprehensive Annual Financial Report.

**B. BASIS OF PRESENTATION**

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

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

accounted for in the proprietary fund follow all applicable GASB pronouncements as well as applicable Financial Accounting Standards Board pronouncements issued on or before November 30, 1989.

**C. BASIS OF ACCOUNTING**

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. A portion of the instant ticket prize structures is funded with unclaimed prize money pursuant to R.S. 47:9025(D).

**D. LEGISLATIVE BUDGET OVERSIGHT**

R.S. 47:9010(A)(7) requires the Corporation beginning on March 1, 1991, and not later than 30 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, 1998, on February 27, 1997, and the budget was approved by the Joint Legislative Committee on the Budget on June 2, 1997. 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, 1998, is not presented.

**2. 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 \$95,781 at June 30, 1998, and \$839,021 at June 30, 1997. 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 \$106,225 at June 30, 1998, and \$824,764 at June 30, 1997, secured from risk by \$100,000 of federal deposit insurance (GASB Risk Category 1), and \$6,225 of pledged securities (GASB Risk Category 1) for fiscal year ended June 30, 1998, and \$724,764 of pledged securities (GASB Risk Category 1) for the fiscal year ended June 30, 1997.

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

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

Investments intended to finance the operations of the Corporation are held in two portfolios. As of June 30, 1998, and June 30, 1997, investments in the first portfolio consist of short-term government securities of \$37,408,829 and \$37,144,163, respectively. These securities are in the form of mutual fund investments consisting of U.S. Treasury obligations and/or U.S. government agency obligations and are recorded at fair value. The investments are not classified as to category of credit risk because this is not required by GASB Codification Section 150.165.

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, 1998, and June 30, 1997, these investments totaled \$13,666,875 (\$3,004,681, current; \$10,662,194, noncurrent) and \$13,440,480 (\$3,007,035, current; \$10,433,445, noncurrent), respectively, with a range of maturity from 138 days to 5.6 years. These securities are recorded at fair value. The investments held by the custodial bank meet the criteria for GASB Risk Category B of Statement 3.

**4. ACCOUNTS RECEIVABLE**

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

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

	As of June 30, 1998	As of June 30, 1997
Accounts receivable	\$8,851,086	\$8,044,480
Interest receivable	295,459	235,400
Allowance for doubtful accounts	(38,914)	(41,806)
Total	<u>\$9,107,631</u>	<u>\$8,238,074</u>

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

**5. INVESTMENTS IN PRIZE ANNUITIES**

Investments in prize annuities totaling \$164,585,472 at June 30, 1998, and \$159,756,720 at June 30, 1997, are in the form of U.S. Treasury zero coupon bonds. These investments have been purchased to finance the grand prizes of the Lotto game and the selected top prizes of two instant ticket games that are payable over a 20-year period. The Corporation intends to hold these investments until maturity to fund the annual prize payments to the prize winners. The investments are held by a custodial bank, with the Corporation maintaining exclusive control over the investment in the accounts. The investments held by the custodial bank meet the criteria for GASB Risk Category B of Statement 3.

Investments in prize annuities totaling \$59,055,777 and \$42,408,307 at June 30, 1998, and June 30, 1997, respectively, have been purchased to finance the Louisiana grand prize winners of the Multi-State Lottery Association (MUSL) Powerball game. The MUSL purchased U.S. Treasury zero coupon bonds to fund the grand prizes that are payable over 20 years. As the bonds mature, the funds are transferred to the Corporation for the annual prize payments to the winners. These investments, held in the name of the MUSL, and placed in trust with the Corporation as the beneficiary, are classified as GASB Risk Category C of Statement 3.

The bonds are reported at fair value as required by GASB Statement 31. The corresponding liability to the prize winners is recorded in prizes payable and is disclosed in note 10. The June 30, 1997, balances of current and noncurrent investments for prize annuities, previously reported on Statement A at amortized cost of \$19,877,785 and \$189,353,188, respectively, are restated at fair value of \$19,829,462 and \$182,335,565, respectively. Also, as a result of this change, the increase in investments in prize annuities reported at June 30, 1997, as \$8,955,747 is restated on Statement C as \$1,889,801. This change has no effect on current or prior year income; therefore, no cumulative effect or pro forma information is necessary.

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

**6. PREPAID EXPENSES**

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

	<u>1998</u>	<u>1997</u>
Ticket inventory	\$665,084	\$579,334
Insurance	85,470	49,303
Miscellaneous	<u>74,702</u>	<u>19,992</u>
Total	<u>\$825,256</u>	<u>\$648,629</u>

**7. RESTRICTED ASSETS - INVESTMENTS**

At June 30, 1998, and June 30, 1997, the Corporation has \$180,690 and \$220,690 in certificates of deposit, respectively. These investments are required as security for the letters of credit required by 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 \$180,690 as of June 30, 1998, and \$220,690 as of June 30, 1997, was classified as GASB Risk Category A.

**8. FIXED ASSETS**

Fixed assets of the Corporation are included on the balance sheet at historical cost and are shown net of accumulated depreciation. Depreciation of all fixed assets is charged as an operating expense. Depreciation for financial reporting purposes is computed by the straight-line method over the estimated useful lives of the assets. As assets are retired or sold, the cost and related accumulated depreciation are removed from the appropriate property and equipment accounts. The resulting gain or loss on disposal is reflected in nonoperating revenues and expenses. A summary of changes in fixed assets follows:

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

	Balance June 30, 1997	Additions	Deletions	Balance June 30, 1998
Automobiles	\$945,425	\$66,976	(\$135,032)	\$877,369
Data processing software and equipment	8,814,387	156,131	(1,579,390)	7,391,128
Equipment	1,304,172	21,915	(6,835)	1,319,252
Furniture and fixtures	382,171	18,721		400,892
Leasehold improvements	772,752	47,623		820,375
Communications	249,981	76,827	(9,009)	317,799
Total	<u>12,468,888</u>	<u>388,193</u>	<u>(1,730,266)</u>	<u>11,126,815</u>
Less - accumulated depreciation	<u>(10,492,363)</u>	<u>(1,026,381)</u>	<u>1,633,785</u>	<u>(9,884,959)</u>
Net Fixed Assets	<u>\$1,976,525</u>	<u>(\$638,188)</u>	<u>(\$96,481)</u>	<u>\$1,241,856</u>

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

Automobiles	36 months
Data processing equipment	60 months
Data processing equipment	36 months from January 1, 1998
Data processing software	36 months
Equipment	60 months
Furniture and fixtures	60 months
Leasehold improvements	36 months
Communications	60 months

**9. MULTI-STATE LOTTERY ASSOCIATION**

The Multi-State Lottery Association (MUSL) is an unincorporated government-benefit voluntary association created for the purpose of administering joint lottery games. MUSL currently includes 20 state lottery entities and the District of Columbia that participate in a game known as Powerball. 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. As of June 30, 1998, and June 30, 1997, the Corporation had deposits with MUSL of \$6,972,775 and \$6,515,208, respectively, representing the Corporation's deposits of reserve funds and the deposit for the Corporation's share of related interest earnings on these funds.

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

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 50266-1907.

**10. PRIZES PAYABLE**

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

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

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

For the fiscal years ended June 30, 1998, and June 30, 1997, the Corporation had four and three Powerball grand prize winner installment obligations, respectively. The MUSL purchased U.S. Treasury zero coupon bonds to fund the grand prizes that are payable over 20 years. As the bonds mature, the funds are transferred to the Corporation for the annual prize payments to the winners.

The liabilities for the grand prize installments are recorded at the fair value of the investments purchased to fund these obligations. All income generated from these bonds, including changes in fair value, accrues as a liability to the prize winners. The June 30, 1997, balances of current and noncurrent prize annuities payable, previously reported on Statement A at net present value of \$19,877,785 and \$189,353,188, respectively, are restated at fair value of \$19,829,462 and \$182,335,565, respectively. Also, as a result of this change and a reclassification adjustment, the amounts previously reported on Statement C at June 30, 1997, for decrease in prizes payable and for increase in noncurrent prizes payable of \$1,544,335 and \$9,291,886, respectively, are restated as \$1,484,587 and \$2,274,262, respectively. This change has no effect on current or prior year income; therefore, no cumulative effect or pro forma information is necessary.

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

	As of June 30, 1998	As of June 30, 1997
<b>Current Prizes and Withholdings Payable:</b>		
Annual grand prize payments (face value)	\$21,706,000	\$20,361,000
Less imputed interest	(520,929)	(483,215)
Net present value of annual grand prize payments	21,185,071	19,877,785
Adjustment to current fair value	1,730	(48,323)
Fair value of prize annuities	21,186,801	19,829,462
Instant prizes payable	6,144,582	5,969,152
On-line prizes payable	7,991,391	5,894,993
Unclaimed prizes payable	9,311,964	8,880,817
Due to MUSL prize pool	885,867	969,877
Tax withholdings payable	25,915	108,071
<b>Total Current Prizes and Withholdings Payable</b>	<b>\$45,546,520</b>	<b>\$41,652,372</b>
<b>Long-term Prizes Payable:</b>		
Annual grand prize payments (face value)	\$310,047,000	\$306,198,000
Less imputed interest	(112,197,780)	(116,844,812)
Net present value of long-term: annual grand prize payments	197,849,220	189,353,188
Adjustment to current fair value	4,605,228	(7,017,623)
Fair value of prize annuities	202,454,448	182,335,565
MUSL prize reserve payable	6,558,069	6,332,706
<b>Total Long-term Prizes Payable</b>	<b>\$209,012,517</b>	<b>\$188,668,271</b>

**11. VACATION AND SICK LEAVE**

Corporation employees earn vacation leave at various rates depending on the employee's position and the number of years of service. All employees must complete one year of service, measured from the date of hire, before they are eligible to use accrued vacation or receive termination payment for unused vacation. Vacation leave may neither be carried forward into the next year nor shall the employee receive additional pay for unused vacation at year-end. Upon termination, employees will be paid in full for unused eligible and current year's accrued vacation leave. Employees earn sick leave at the rate of 8 days per year after the completion of 6 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, 1998, and June 30, 1997, the total value of compensated absences payable are \$228,779 and \$219,757, respectively.

**12. RETIREMENT BENEFITS**

**A. AUTHORIZATION AND BASIS OF ACCOUNTING**

R.S. 47:9015(A) states that the Corporation shall provide or arrange for a retirement plan. The retirement plans described below have been established pursuant to this statute. Administrative and investment services are provided by Pan American Life Insurance Company. A financial and compliance audit has been performed on all the Corporation's retirement plans described below for the plans' year ending December 31, 1997. 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.

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

**B. BASIC AND SUPPLEMENTAL RETIREMENT PLANS**

**1. Basic Retirement Plan**

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

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 employer's contribution shall be 5% of the participant's compensation for such plan year. The participant's contribution shall equal 6.2% of his/her compensation for such plan year.

A participant is fully vested immediately. In no event shall the assets of this plan revert for the benefit of the Corporation. No more than the social security wage base in effect as of the first day of the plan year shall be treated as compensation. As of June 1, 1994, the Corporation elected to treat all contributions to the basic retirement plan as pre-tax.

The distribution of a participant's benefits shall commence as of the date designated by the participant (annuity starting date) after termination of employment with the Corporation, but shall not be later than April 1 of the year

following the calendar year in which the participant attains age 70½. The participant shall make a qualified election to receive the distribution in the form of a single-sum payment or to purchase a qualified joint and survivor annuity or single life annuity contract. This qualified election may be revoked, modified, or amended at any time, or multiple times before the participant's annuity starting date; however, the qualified election is irrevocable as of the participant's annuity starting date.

## **2. Supplemental Retirement Plan**

The Corporation has a defined contribution retirement plan that covers substantially all full-time employees. The Corporation contributes 4.5% of each participant's compensation for the year, as defined. Participants are not permitted to contribute to the plan. 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 date (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. 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 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 no later than 60 days following the date after the participant terminates employment with the Corporation, attains the normal retirement age, or dies. A participant may elect to postpone the distribution, in writing on forms provided by the Employee Benefits Committee, provided, however, in no event shall distribution be postponed later than April 1 following the close of the calendar year in which the participant attains age 70½.

As of June 30, 1998, there were 139 participants in the Basic Plan and 128 participants in the Supplemental Plan.

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

For the fiscal year ended June 30, 1998, employer and employee contributions to the Basic and Supplemental Plans were \$358,874 and \$239,580, respectively. The fair value of the total assets of the plans as of June 30, 1998, is \$3,824,023. Individual investments that represent 5% or more of plan net assets include the Vanguard Wellington Mutual Fund with a fair value of \$2,468,032 and the Dreyfus Institutional S&P 500 Stock Index Mutual Fund with a fair value of \$1,059,045.

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

The Optional Savings Plan is a voluntary Deferred Compensation Plan adopted under the provisions of IRC Section 457. Under the terms of the Plan, an employee is eligible to participate in the Plan as of the entry date that coincides with or immediately follows the date on which the employee completes a 90-day employment period. For any 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 \$8,000. The Corporation contributes a matching contribution equal to the amount of compensation deferred by each participant up to 2.5% of each participant's compensation as reported on Internal Revenue Service (IRS) Form W-2, increased by the amount of any deferral under this Plan. The Corporation has elected to designate a third party to administer the Plan through an irrevocable trust.

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, is 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.

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.

The distribution of a participant's benefits shall be made either in the form of a single-sum payment or in the form of substantially equal quarterly or annual installment payments not to exceed 15 years. The participant's benefits will commence 60 days after termination of employment with the Corporation unless the participant elects in writing on forms acceptable to the Employee Benefits Committee to defer the payment of these benefits. This election must be made within 30 days after separation from service

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

and may be modified or changed one time if the modification is made before commencement of distributions. 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.

As of June 30, 1998, there were 117 participants in the Optional Savings Plan.

For the fiscal year ended June 30, 1998, employer and employee contributions were \$85,622 and \$166,678, respectively. The fair value of plan assets at June 30, 1998, is \$1,543,895. Individual investments that represent 5% or more of plan net assets include the Vanguard Wellington Mutual Fund with a fair value of \$335,734 and the Dreyfus Institutional S&P 500 Stock Index Mutual Fund with a fair value of \$870,717.

**13. LITIGATION**

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

**14. RISK MANAGEMENT**

The Corporation is exposed to various risks of loss related to torts, theft of, damage to and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Corporation has purchased commercial insurance to cover these risks. In addition, management has established a litigation and prize reserve of \$5,000,000 within the Corporation's retained earnings to cover unanticipated losses (see note 16.) The amount of commercial coverage has not decreased nor has the amount of settlements exceeded coverage in any of the past three fiscal years.

**15. 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:

	<u>Equipment</u>	<u>Facilities</u>	<u>Total</u>
1998-99	\$20,161	\$608,288	\$628,449
1999-2000	9,677	228,265	237,942
2000-2001	8,724	62,062	70,786
2001-2002	8,724	9,624	18,348
2002-2003	8,724		8,724

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

The total operating lease payments for the years ended June 30, 1998, and June 30, 1997, were \$650,210 and \$561,513, respectively.

The Corporation has no capital leases at June 30, 1998.

**16. RETAINED EARNINGS**

The Corporation has unreserved retained earnings at June 30, 1998, of \$22,801,083. As presented in the 1998-99 fiscal year budget approved by the Joint Legislative Committee on the Budget on August 13, 1998, management has specified that retained earnings of June 30, 1998, be used for the following purposes:

Cost of fixed assets (net of accumulated depreciation)	\$1,250,000
Fixed asset replacement reserve	6,500,000
Instant ticket inventory	680,000
Litigation and prize reserve	5,000,000
New capital expenditure purchases	546,000
Permanent facilities	6,750,000
Deposits	35,584
Funding for future needs, such as capital expenditures, equipment purchases, one-time retailer incentives, new game development, etc.	1,500,000
Rounding difference	74
Total budgeted retained earnings	<u>22,261,658</u>
Plus - difference in budgeted retained earnings and actual	<u>539,425</u>
Total unreserved retained earnings	<u><u>\$22,801,083</u></u>

The reserve for operating leases of \$180,690 represents security pledged against a letter of credit required by the Baton Rouge main office operating lease.

**17. TRANSFERS TO THE STATE TREASURY**

The Corporation is required to transfer each year not less than 35% 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, 1998, and June 30, 1997, the total amount transferred to the state was \$108 million and \$104.3 million, respectively.

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

**18. BOARD OF DIRECTORS**

The board of directors consists of nine members appointed by the governor and confirmed by the Senate. No member shall serve more than two consecutive four-year terms. The board of directors must meet at least bi-monthly 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, 1998**

**SCHEDULE OF PROFESSIONAL SERVICE FEES**

Schedule 1 presents professional service fees for the year ended June 30, 1998. 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, 1998. 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, 1998  
(With Comparative Totals for June 30, 1997)

	<u>JUNE 30, 1998</u>	<u>JUNE 30, 1997</u>
Abbott & Hayne, Counselors-at-Law - legal counsel	\$1,397	\$14,999
Affiliated Forensic - compliance testing of Instant games	6,000	4,750
Attorney General's Office, Department of Justice - legal counsel	88,875	88,875
BABN - marketing research	21,240	
Battelle, Incorporated - consulting services for on-line system		101,094
Buck Consulting - review of compensation program	960	
Chenevert/Soderberg, Architects - facilities planning	25,500	
Department of Revenue and Taxation - retailer background investigations	6,883	11,795
Dittler Brothers, Incorporated - marketing research	155,584	88,404
KPMG Peat Marwick Thorne - Certified Public Accountants acceptance testing - Automated Drawing Machine	15,738	10,800
Martin E. Segal Company - benefit plan development	11,789	12,328
Miscellaneous	447	467
Office of Legislative Auditor - financial and compliance audit and observations of on-line drawings	97,096	119,971
Phelps Dunbar, Counselors-at-Law - legal counselors	47,586	151,993
Pravel, Hewitt, Kimball & Krieger, Counselors-at-Law - legal counselors		9,724
SSA Consultants, Incorporated - long range planning	6,684	5,707
William M. Mercer, Incorporated - salary administration and compensation program		18,018
	<u>\$485,779</u>	<u>\$638,925</u>
Total		

LOUISIANA LOTTERY CORPORATION  
STATE OF LOUISIANA

Schedule of Compensation Paid Board Members  
For the Year Ended June 30, 1998  
(With Comparative Totals for June 30, 1997)

	<u>EFFECTIVE DATE OF TERM</u>	<u>EXPIRATION DATE OF TERM</u>	<u>JUNE 30, 1998</u>	<u>JUNE 30, 1997</u>
Joseph Bouie	January 28, 1993	February 21, 1997*		\$10,000
James David Cain, Jr.	January 1, 1995		\$15,000	15,000
Stewart Gentry, Chairperson effective June 26, 1998	June 24, 1994		15,139	19,704
Harold Hebert, Chairperson effective January 26, 1997, through December 14, 1997	January 19, 1993		19,570	20,296
Jewel J. Newman	April 26, 1995	March 1, 1998*	10,041	15,000
Lamar Poole	January 1, 1995		15,000	15,000
Nicholas Smith	January 12, 1994	December 31, 1997*	7,500	15,000
Lyn Hayward	March 26, 1996		15,000	15,000
Oray P. Rogers	January 1, 1998		7,500	
Peggy Persac, Chairperson effective December 15, 1997, through June 25, 1998	July 17, 1996		20,291	14,355
Patricia C. Mason	February 27, 1997		15,000	4,860
S.P. Davis	March 25, 1998	Resigned June 1, 1998	2,829	
Total			<u>\$142,870</u>	<u>\$144,215</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.



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

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

1600 NORTH THIRD STREET  
POST OFFICE BOX 94397  
TELEPHONE: (225) 339-3800  
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September 11, 1998

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, 1998, and have issued our report thereon dated September 11, 1998. 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

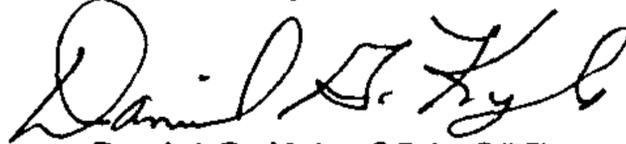
LEGISLATIVE AUDITOR

BOARD OF DIRECTORS  
LOUISIANA LOTTERY CORPORATION  
STATE OF LOUISIANA  
Compliance and Internal Control Report  
September 11, 1998  
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,



Daniel G. Kyle, CPA, CFE  
Legislative Auditor

MMG:THC:RCL:dl

(LOTTERY)

**STATISTICAL SECTION**

**(UNAUDITED)**

## LOUISIANA LOTTERY STATISTICS (UNAUDITED)

The Louisiana Lottery Corporation began operating in January 1991 and commenced ticket sales in September 1991. The Lottery earned revenue of \$129,371 and incurred general operating expenses of \$1,096,699 during its first fiscal year ended June 30, 1991. Data from ticket sales inception through June 30, 1998 is presented in the following charts.

The information presented in the charts is as follows:

**Sales - Instant Tickets** - represents the face value of tickets activated by retailers.

-On-line - represents the face value of tickets sold to the public.

**Revenue** - includes sales, interest income, increases in the fair value of investments, retailer license fees, miscellaneous revenue, and gains on disposal of assets.

**Prizes** - represents the accrued expenses for instant tickets and on-line game winners based on established prize structures.

**Retailer Compensation** - represents 5% base sales commission and incentive payments.

**Direct Operating Expenses** - expenses which fluctuate with sales volume including commission paid to the on-line vendor, the cost of purchasing instant tickets, the cost of delivery to retailers, and on-line network communication costs.

**General Operating Expenses** - includes all other costs of operating the Lottery.

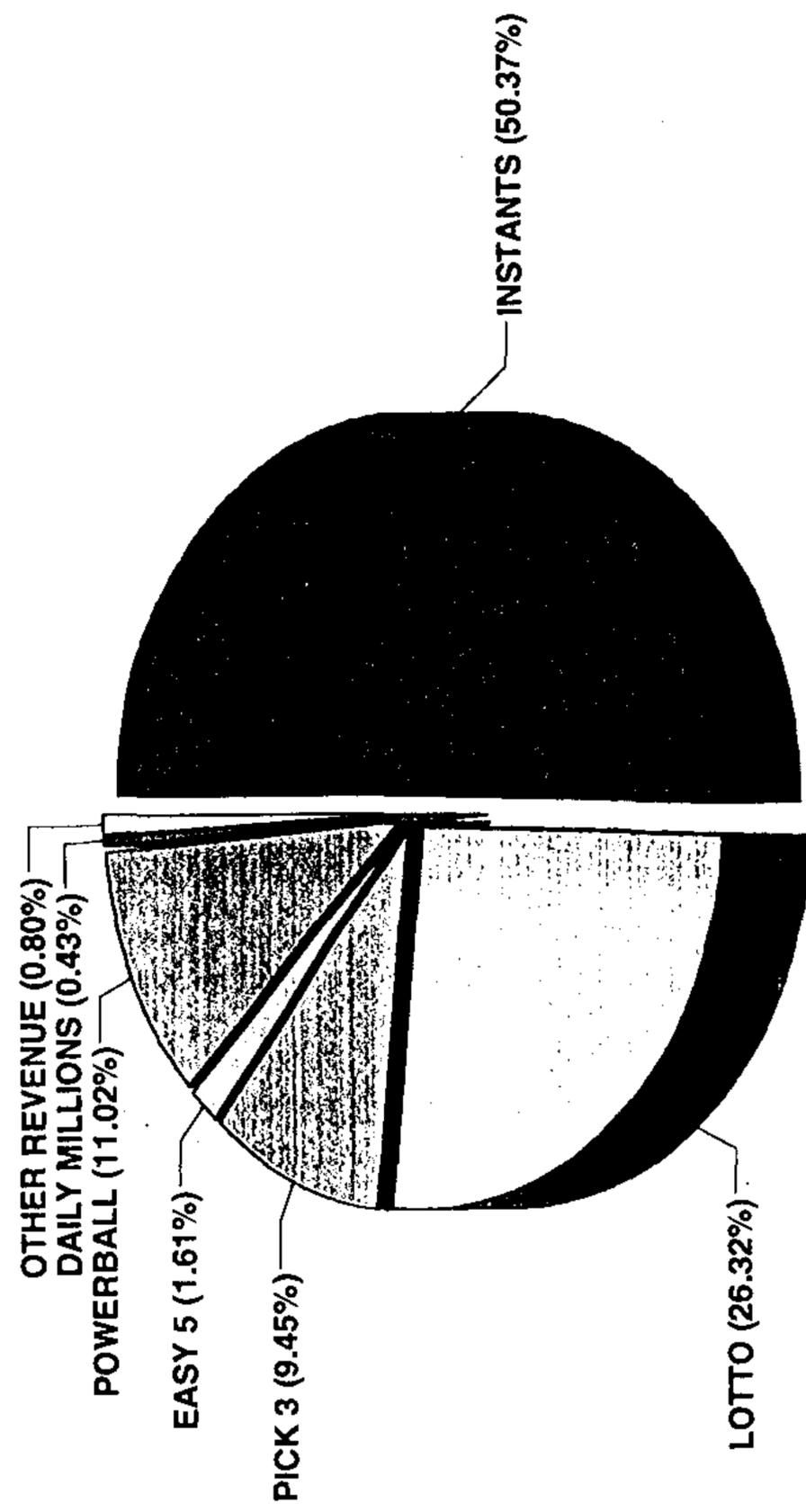
**Transfers** - represents the transfer of net revenues to the State Treasury Lottery Proceeds Fund as required by Louisiana Lottery Law.

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

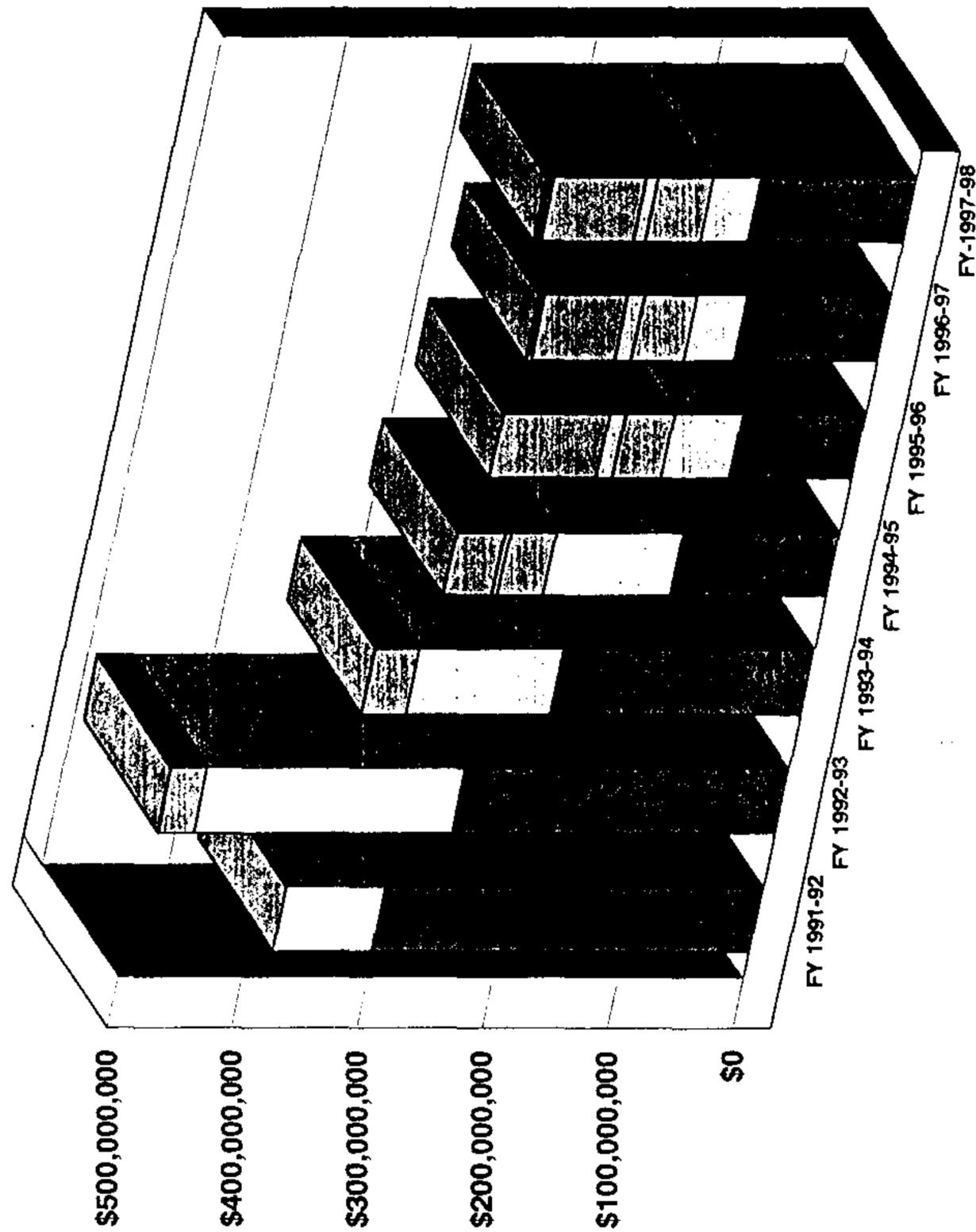
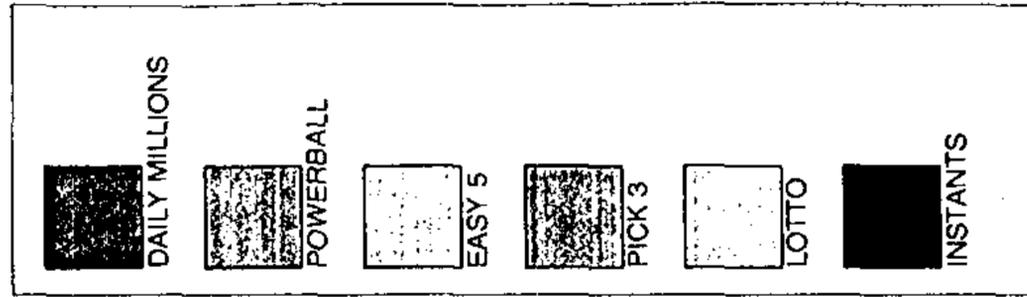
LOUISIANA LOTTERY CORPORATION  
REVENUE  
(UNAUDITED)  
FISCAL YEARS 1992 THROUGH 1998

	FY 1991-92	FY 1992-93	FY 1993-94	FY 1994-95	FY 1995-96	FY 1996-97	FY 1997-98	INCEPTION TO DATE
<b>SALES</b>								
INSTANT TICKETS	\$301,100,047	\$256,854,757	\$198,950,600	\$124,092,199	\$97,132,942	\$113,626,649	\$123,273,680	\$1,215,030,874
<b>ON-LINE:</b>								
LOTTO	79,073,230	205,981,260	115,561,236	100,742,068	54,150,821	40,416,940	36,876,518	632,802,073
PICK 3	0	29,836,936	35,449,725	37,449,548	39,440,324	41,743,623	43,977,773	227,897,929
EASY 5	0	0	0	4,178,518	12,572,638	13,139,044	8,896,149	38,786,349
POWERBALL	0	0	0	38,791,478	85,926,297	67,288,303	73,907,516	265,913,594
DAILY MILLIONS	0	0	0	0	0	4,439,290	5,963,955	10,403,245
<b>TOTAL ON-LINE</b>	<b>79,073,230</b>	<b>235,818,196</b>	<b>151,010,961</b>	<b>181,161,612</b>	<b>192,090,080</b>	<b>167,027,200</b>	<b>169,621,911</b>	<b>1,175,803,190</b>
<b>TOTAL SALES</b>	<b>380,173,277</b>	<b>492,672,953</b>	<b>349,961,561</b>	<b>305,253,811</b>	<b>289,223,022</b>	<b>280,653,849</b>	<b>292,895,591</b>	<b>2,390,834,064</b>
<b>OTHER REVENUE</b>								
INTEREST EARNED ON INVESTMENTS	1,227,652	2,016,629	1,823,741	3,145,779	3,468,537	3,114,069	3,210,947	18,007,354
NET INCREASE IN THE FAIR VALUE OF INVESTMENTS	0	0	0	0	0	27,217	174,129	201,346
RETAILER LICENSE FEES	326,425	41,650	48,075	41,925	34,475	33,125	34,075	559,750
MISCELLANEOUS REVENUE	241,481	15,556	2,434	17,495	23,490	12,430	16,372	329,258
GAIN ON DISPOSAL OF ASSETS	0	0	23,332	23,897	85,963	34,832	27,770	195,794
<b>TOTAL OTHER REVENUE</b>	<b>1,795,558</b>	<b>2,073,835</b>	<b>1,897,582</b>	<b>3,229,096</b>	<b>3,612,465</b>	<b>3,221,673</b>	<b>3,463,293</b>	<b>19,293,502</b>
<b>TOTAL REVENUE</b>	<b>\$381,968,835</b>	<b>\$494,746,788</b>	<b>\$351,859,143</b>	<b>\$308,482,907</b>	<b>\$292,835,487</b>	<b>\$283,875,522</b>	<b>\$296,358,884</b>	<b>\$2,410,127,566</b>

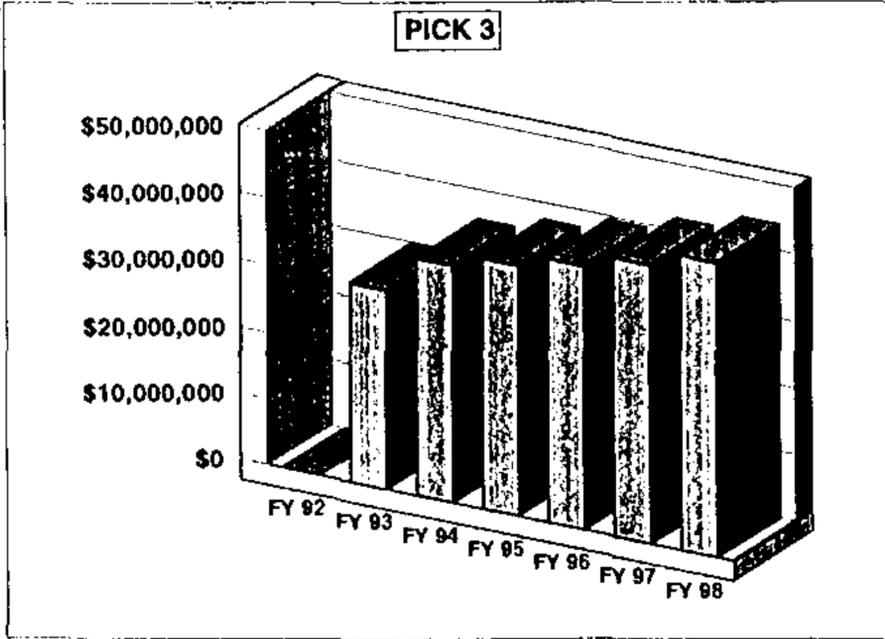
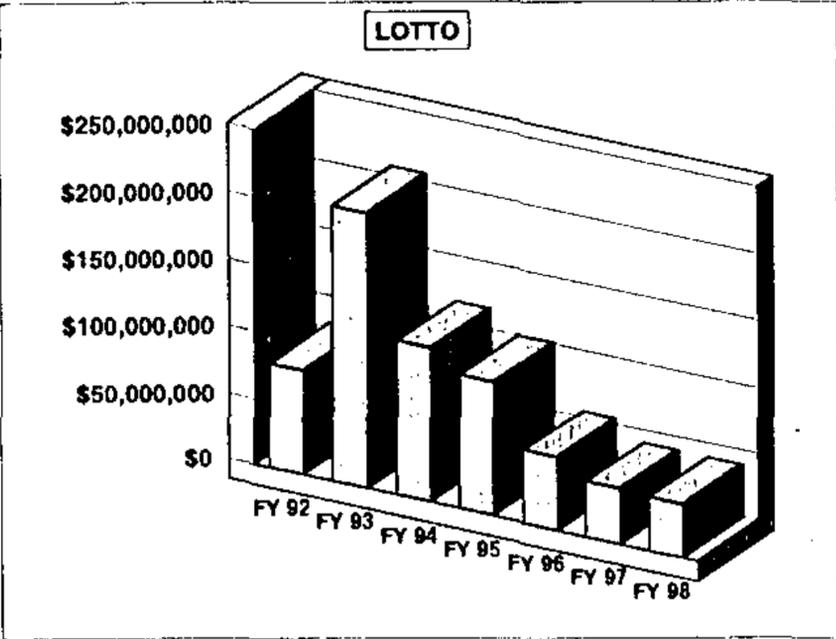
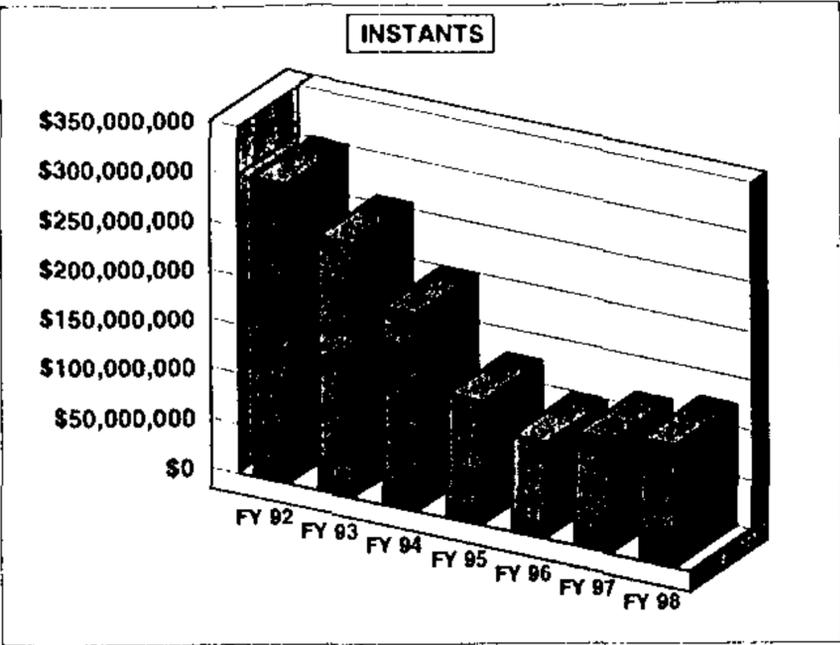
**LOUISIANA LOTTERY CORPORATION  
INCEPTION-TO-DATE REVENUE DISTRIBUTION  
(UNAUDITED)**



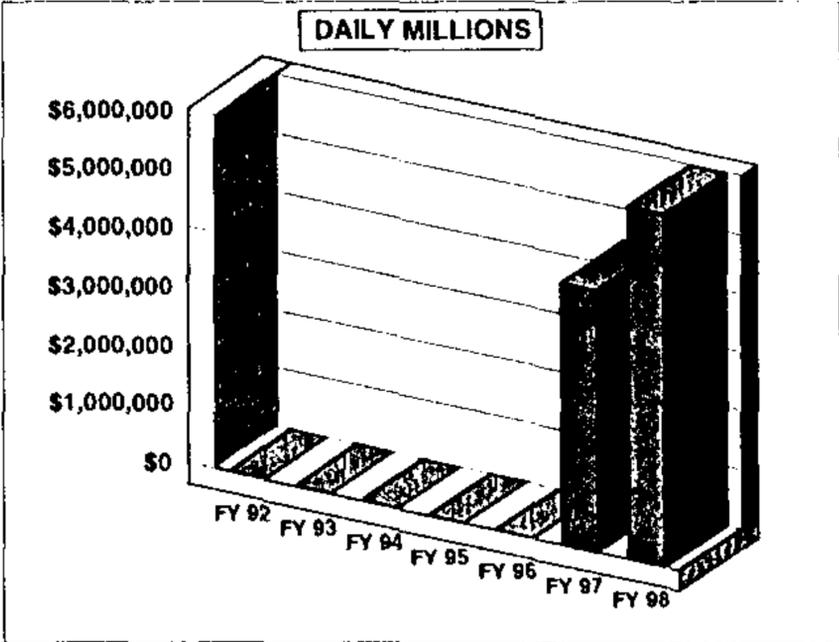
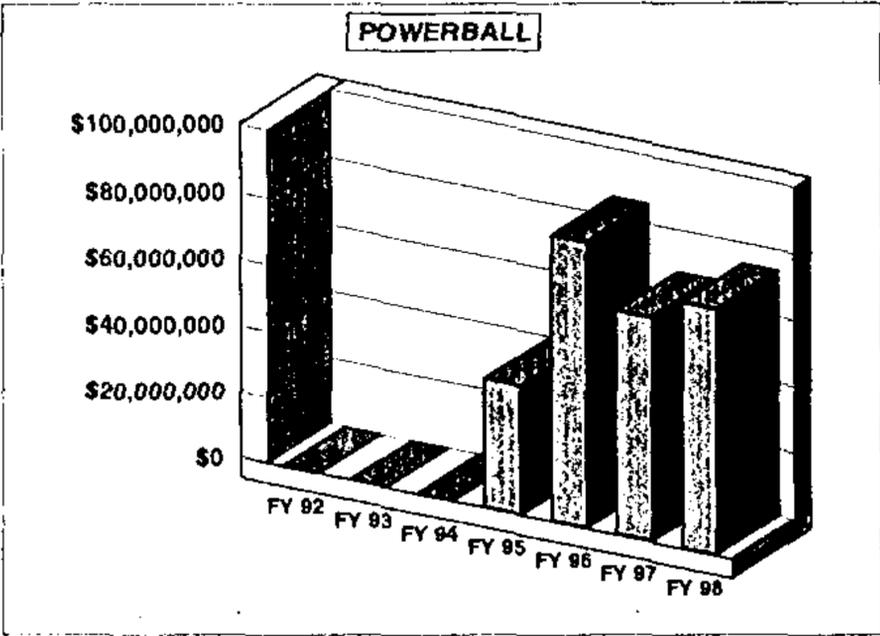
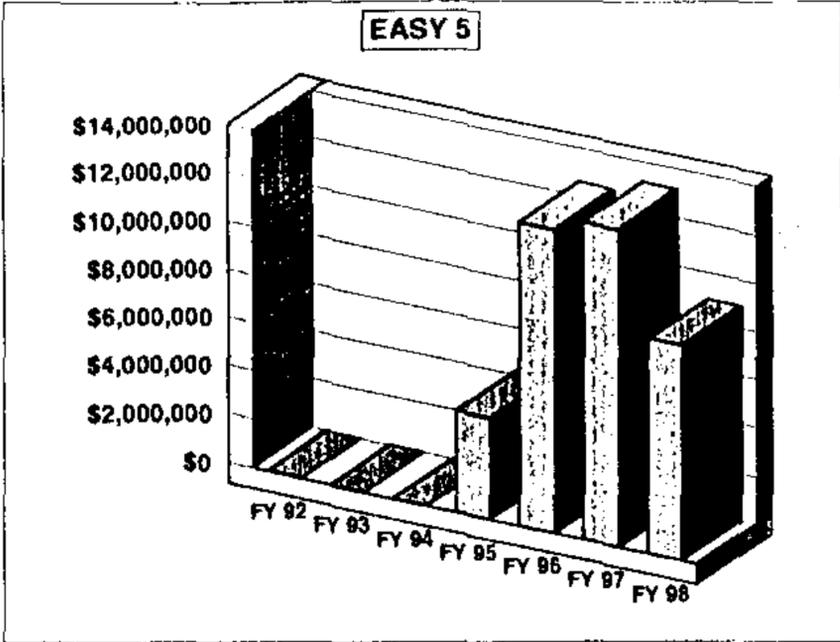
LOUISIANA LOTTERY CORPORATION  
 SALES BY PRODUCT  
 (UNAUDITED)  
 FISCAL YEARS 1992 THROUGH 1998



**LOUISIANA LOTTERY CORPORATION**  
**SALES BY FISCAL YEAR BY PRODUCT LINE**  
 (UNAUDITED)  
 FISCAL YEARS 1992 THROUGH 1998



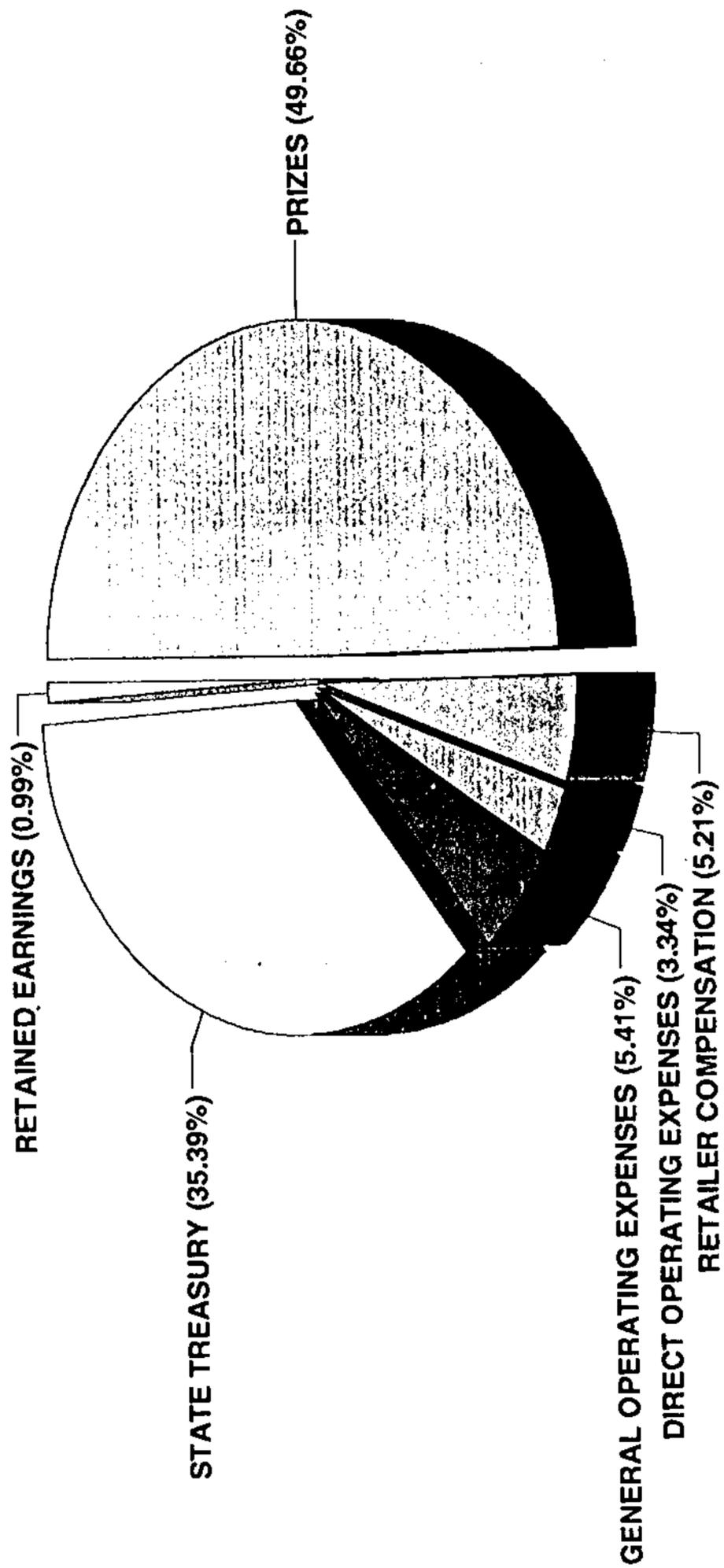
**LOUISIANA LOTTERY CORPORATION  
SALES BY FISCAL YEAR BY PRODUCT LINE  
(UNAUDITED)  
FISCAL YEARS 1992 THROUGH 1998**



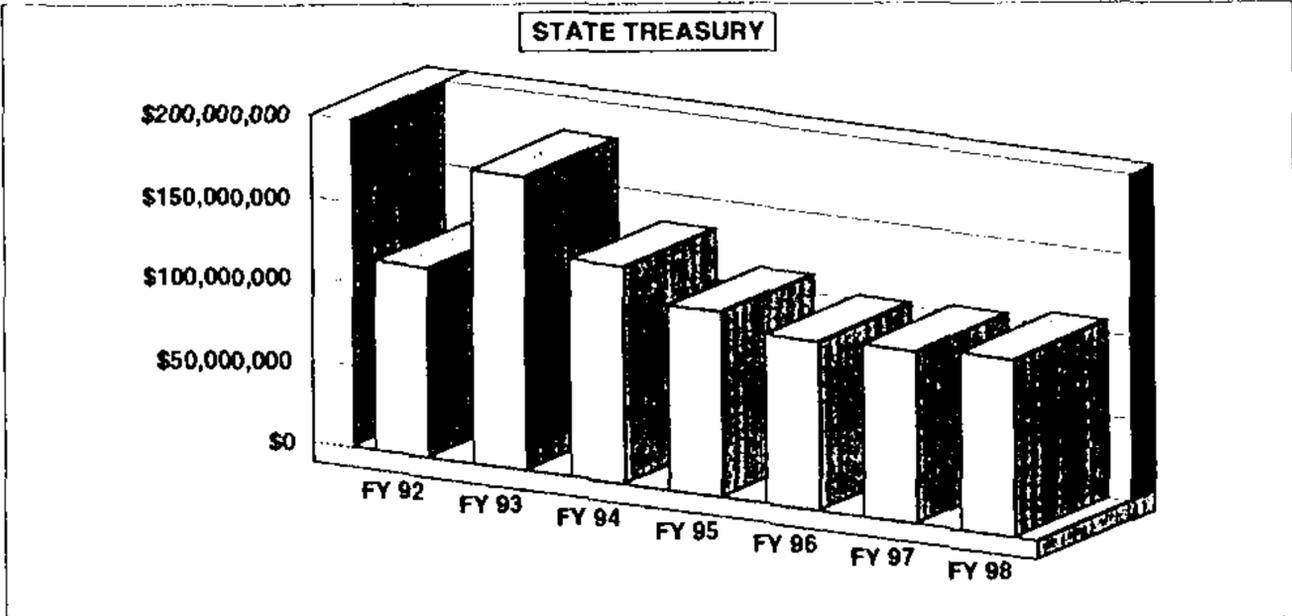
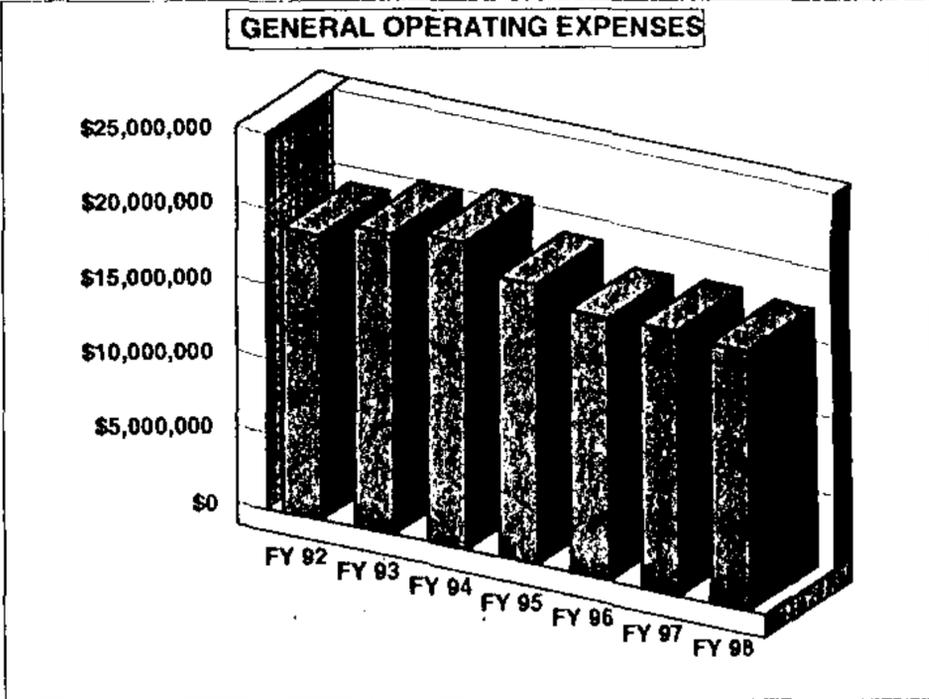
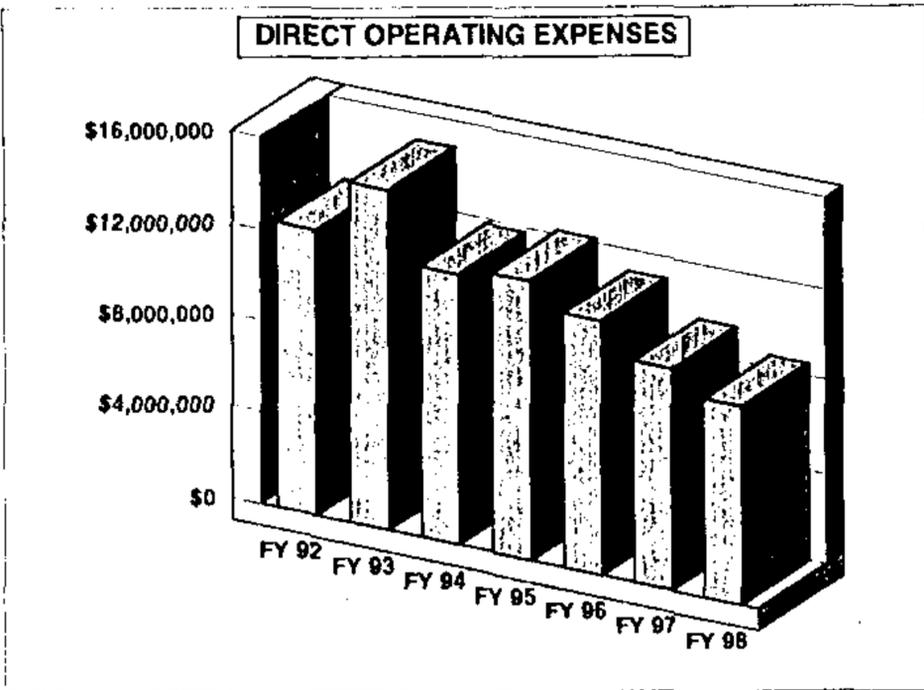
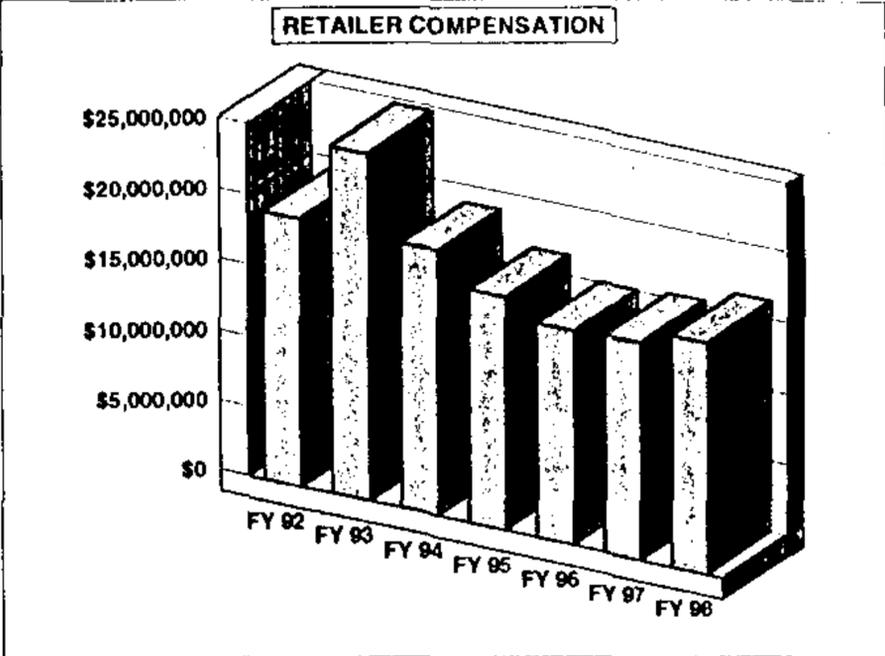
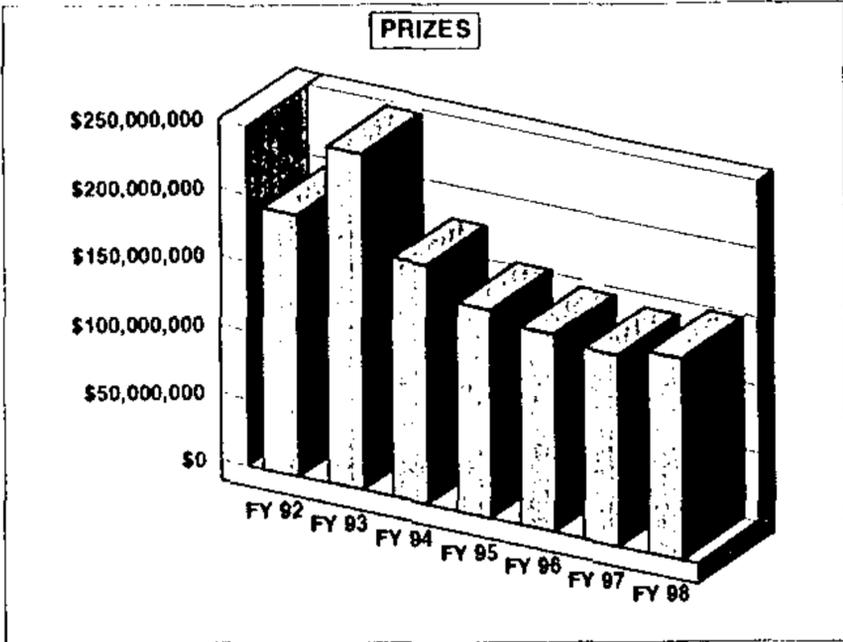
LOUISIANA LOTTERY CORPORATION  
EXPENSES AND TRANSFERS  
(UNAUDITED)  
FISCAL YEARS 1992 THROUGH 1998

	<u>FY 1991-92</u>	<u>FY 1992-93</u>	<u>FY 1993-94</u>	<u>FY 1994-95</u>	<u>FY 1995-96</u>	<u>FY 1996-97</u>	<u>FY 1997-98</u>	<u>INCEPTION TO DATE</u>
<b>EXPENSES</b>								
PRIZES	\$191,988,549	\$246,753,033	\$174,740,175	\$152,025,516	\$144,589,840	\$139,773,269	\$147,071,812	\$1,196,942,194
RETAILER COMPENSATION	19,021,961	24,638,019	18,756,749	16,486,645	15,104,325	15,325,737	16,270,676	125,604,112
DIRECT OPERATING EXPENSES	12,447,630	14,802,430	11,806,135	12,192,815	11,061,649	9,560,285	8,569,499	80,440,443
GENERAL OPERATING EXPENSES	18,948,771	20,035,899	20,470,028	18,672,710	17,429,161	17,575,489	17,220,780	130,352,838
<b>TOTAL EXPENSES</b>	<b>\$242,406,911</b>	<b>\$306,229,381</b>	<b>\$225,773,087</b>	<b>\$199,377,686</b>	<b>\$188,184,975</b>	<b>\$182,234,780</b>	<b>\$189,132,767</b>	<b>\$1,533,339,587</b>
<b>TRANSFERS</b>								
STATE TREASURY	\$115,000,000	\$179,165,000	\$132,026,000	\$111,770,000	\$102,492,420	\$104,346,906	\$108,038,552	\$852,838,878

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



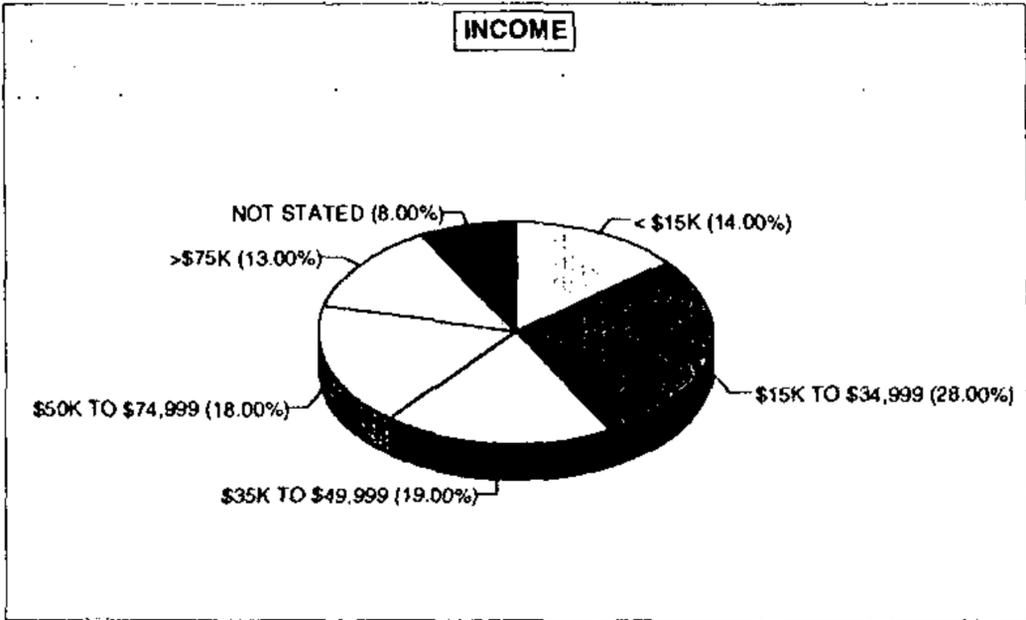
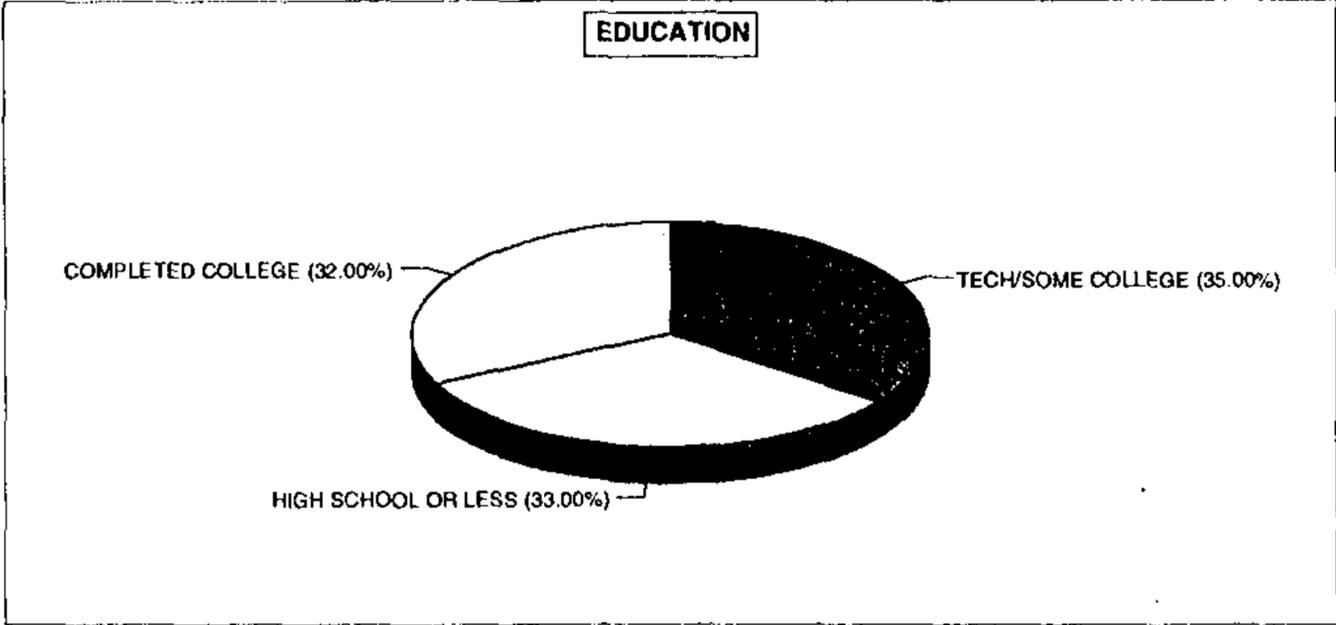
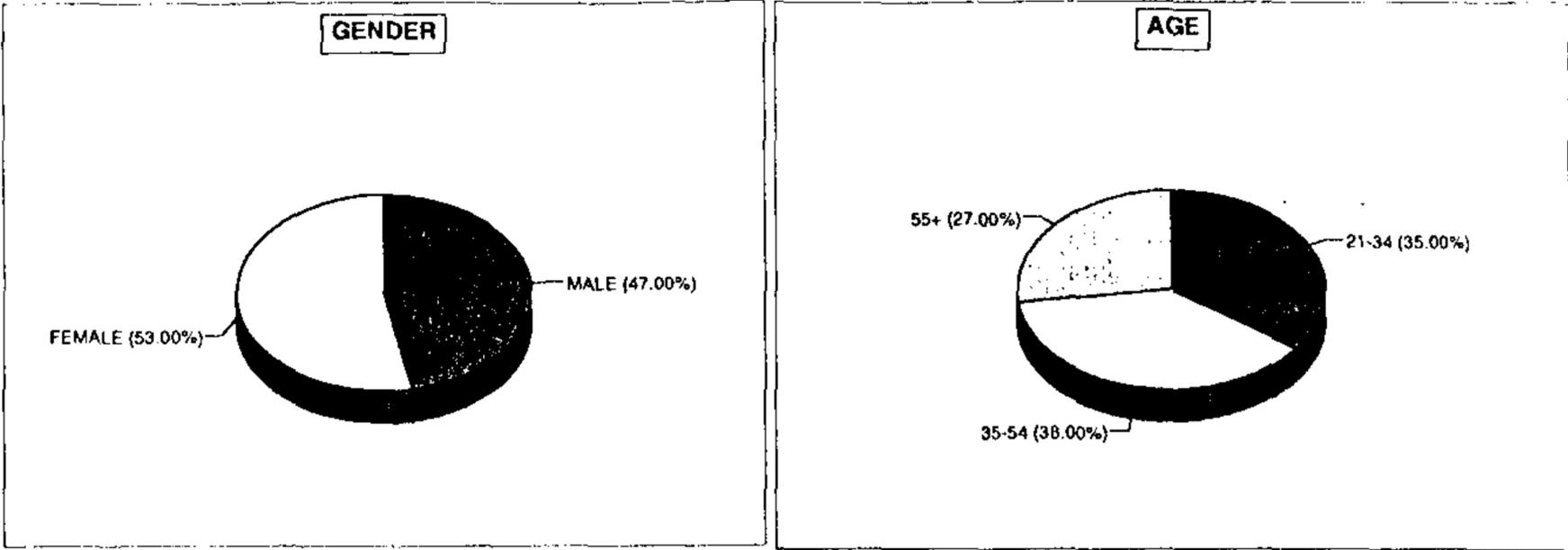
**LOUISIANA LOTTERY CORPORATION  
EXPENSES AND TRANSFERS  
(UNAUDITED)  
FISCAL YEARS 1992 THROUGH 1998**



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

<u>DATE</u>	<u>AMOUNT</u>	<u>LOTTERY FISCAL YEAR TOTAL</u>	<u>CALENDER YEAR TOTAL</u>
DECEMBER 1991	\$50,000,000		\$50,000,000
MARCH 1992	40,000,000		
JUNE 1992	25,000,000	\$115,000,000	
SEPTEMBER 1992	57,200,000		
DECEMBER 1992	44,300,000		166,500,000
MARCH 1993	45,900,000		
JUNE 1993	31,765,000	179,165,000	
SEPTEMBER 1993	32,266,000		
DECEMBER 1993	40,400,000		150,331,000
MARCH 1994	31,365,000		
JUNE 1994	27,995,000	132,026,000	
SEPTEMBER 1994	26,725,000		
DECEMBER 1994	24,500,000		110,585,000
MARCH 1995	25,810,000		
JUNE 1995	34,735,000	111,770,000	
JULY 1995	9,066,822		
AUGUST 1995	8,194,932		
SEPTEMBER 1995	8,507,793		
OCTOBER 1995	7,873,606		
NOVEMBER 1995	8,327,516		
DECEMBER 1995	8,500,000		111,015,669
JANUARY 1996	9,820,865		
FEBRUARY 1996	8,202,764		
MARCH 1996	9,315,166		
APRIL 1996	8,282,972		
MAY 1996	8,428,448		
JUNE 1996	7,971,536	102,492,420	
JULY 1996	8,176,487		
AUGUST 1996	7,890,198		
SEPTEMBER 1996	7,643,764		
OCTOBER 1996	8,385,386		
NOVEMBER 1996	7,773,727		
DECEMBER 1996	8,243,281		100,134,594
JANUARY 1997	8,181,070		
FEBRUARY 1997	8,026,686		
MARCH 1997	9,397,036		
APRIL 1997	8,594,425		
MAY 1997	8,675,328		
JUNE 1997	13,359,518	104,346,906	
JULY 1997	8,399,129		
AUGUST 1997	8,490,015		
SEPTEMBER 1997	7,522,120		
OCTOBER 1997	7,955,211		
NOVEMBER 1997	7,567,906		
DECEMBER 1997	9,211,519		105,379,963
JANUARY 1998	8,211,078		
FEBRUARY 1998	8,691,278		
MARCH 1998	8,834,355		
APRIL 1998	8,391,642		
MAY 1998	12,684,716		
JUNE 1998	12,079,583	108,038,552	58,892,652
<b>TOTAL INCEPTION-TO-DATE</b>	<b>\$852,838,878</b>	<b>\$852,838,878</b>	<b>\$852,838,878</b>

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



Source: Annual Market Segmentation Presentation  
Angus Reid Group, December 1998

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

The following four tables:

- U.S. Lotteries' Fiscal 1997 Sales By Game
- Fiscal 1997 U.S. Lottery Sales, Profit & Prize Expense

(Source: **The '98 World Lottery Almanac**)

- U.S. Lotteries' Fiscal 1998 Unaudited Sales By Game
- U.S. Lotteries' Unaudited FY98 Sales, Prizes & Profits

(Source: **La Fleur's Lottery World 1998 Fast Facts**)

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# U.S. lotteries' fiscal 1997 sales by game

Lottery	Pop. (M)	Online Games										Total Sales	PC Sales	Prizes*	Net Income	
		Instant	Pulltab	3-digit	4-digit	Lotto	Power ball	Cash Lotto	Keno	VLT	Other					
Arizona	4.6	105.59				62.80	65.37	15.82				0.23	249.81	\$55	132.25	78.25
California	32.3	527.32		71.05	17.85	1,095.94		150.78	200.20				2,063.14	\$64	1,030.54	727.63
Colorado	3.9	212.22				125.94		16.89	5.85				360.90	\$93	215.11	94.59
Connecticut	3.3	395.99		125.99	61.38	90.13	49.01	47.30					769.80	\$235	450.68	253.51
Delaware (1)	0.7	20.30		33.71	16.11		19.46	10.65		255.90	3.03		359.16	\$491	53.75	127.81
D.C.	0.5	23.88		80.68	56.81		29.05	12.49					202.91	\$384	101.65	69.33
Florida	14.7	616.23		309.38	151.09	721.07		272.29					2,070.06	\$141	1,027.51	817.53
Georgia	7.5	564.44		624.15	37.90	211.20	22.55	114.28	76.46				1,650.97	\$221	857.28	568.22
Idaho	1.2	61.19	2.04			4.94	17.45	1.37					86.99	\$72	53.32	18.41
Illinois	11.9	582.26		340.69	139.78	387.82		118.89					1,569.44	\$132	827.41	587.17
Indiana	5.9	319.05	0.71	53.22		79.94	108.49	17.51					578.92	\$99	322.88	176.32
Iowa	2.9	91.23	25.80			10.19	32.92	12.53			0.99		173.66	\$61	96.90	43.44
Kansas	2.6	81.39	0.52	4.97			39.73	22.28	36.47				185.36	\$71	98.31	56.84
Kentucky	3.9	283.77	34.15	97.98	19.66	49.39	64.08	20.03					569.06	\$146	339.87	153.73
Louisiana	4.4	113.63		41.74		40.42	67.29	17.58					280.66	\$65	139.77	101.64
Maine	1.2	104.41		4.64	3.39	28.84		4.98					146.26	\$118	82.16	41.79
Maryland	5.1	162.11		338.70	168.41	103.94		36.10	234.24				1,043.50	\$205	551.71	393.39
Mass	6.1	2,071.63	3.17	378.85		235.45		67.40	432.53		8.42		3,197.45	\$523	2,238.10	719.99
Michigan	9.8	563.85		400.80	262.18	322.30		36.22	13.97				1,599.32	\$164	866.46	595.11
Minnesota	4.7	272.49		12.91			53.13	29.99					368.52	\$79	224.45	88.45
Missouri	5.4	222.34	28.49	48.36		31.89	76.15	32.35					439.58	\$81	241.86	132.66
Montana	0.9	6.06									22.13		28.19	\$32	14.33	6.60
Nebraska	1.7	41.32					24.48	10.83					76.63	\$46	40.40	20.59
N.H.	1.2	111.02		8.14		18.26	29.33	10.04					176.79	\$151	102.15	54.21
N.J.	8.1	383.26		463.12	258.91	340.34		110.45					1,556.08	\$193	812.73	647.58
N.M.	1.7	56.75					22.64	2.70					82.09	\$47	41.37	20.27
N.Y.	18.1	1,056.63		668.81	426.59	874.32		341.28	618.75		5.93		3,992.31	\$220	2,026.16	1,542.76
Ohio	11.2	1,195.04		435.63	116.54	410.59		78.75			63.45		2,300.00	\$206	1,312.22	751.98
Oregon (1)	3.2	136.15	7.77		3.45	40.62	35.14		101.50	355.68	8.51		688.82	\$212	207.62	301.23
Pennsylvania	12.0	409.25		599.19	259.45	291.23		150.90					1,710.02	\$142	857.20	701.63
R.I.	1.0	27.36		29.41			37.88	6.16	41.80	406.11			548.72	\$556	77.20	99.96
S. Dakota (2)	0.7	15.48				1.85	7.47	3.23		505.16			533.19	\$723	15.45	95.88
Texas	19.4	2,357.74		158.55		906.33		322.86					3,745.48	\$193	2,151.74	1,179.80
Vermont	0.6	62.64		1.11	0.89	10.54		2.14					77.32	\$131	46.05	23.73
Virginia	6.7	300.29		248.06	105.22	216.08		35.71			15.47		920.83	\$137	475.38	342.47
Washington	5.6	206.38		17.46		121.88		49.72	12.77				408.21	\$73	258.30	94.57
W. Va. (1)	1.8	79.52	0.78	11.15	4.86		38.02	11.47	16.98	82.34			245.12	\$135	92.80	72.76
Wisconsin	5.2	266.24	7.17	30.19	0.18	30.33	47.45	49.53					431.09	\$83	244.02	137.72
<b>Total</b>	<b>231.5</b>	<b>14,106.45</b>	<b>110.60</b>	<b>5,638.64</b>	<b>2,110.65</b>	<b>6,864.57</b>	<b>887.09</b>	<b>2,243.50</b>	<b>1,791.52</b>	<b>1,605.19</b>	<b>128.16</b>	<b>35,486.4</b>	<b>\$153</b>	<b>18,727.1</b>	<b>11,939.55</b>	
% of total		39.8%	0.3%	15.9%	5.9%	19.3%	2.5%	6.3%	5.0%	4.5%	0.4%	100.0%				

\* Prizes do not include VLT prize payments; 1) Denotes VLT net machine income; 2) Denotes VLT gross handle

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

# Fiscal 1997 U.S. Lottery Sales, Profit & Expense Analysis

Lottery	Pop. (Mil)	Cal. '97 Personal Income*	(in \$ millions)							PC Total Rev.	PC Net Income	Total Revenue as % of Personal Income	Net Income as % of Personal Income	Prizes as % of Total Rev.	Exp. as % of Total Rev.	Net Income as % of Total Rev.
			Ticket Sales	Other Income	Total Revenue	Prizes	Agent Comm.	Expense	Net Income							
Arizona	4.6	102,407.0	249.80	0.71	250.51	132.25	14.99	25.01	78.26	\$55	\$17	0.245%	0.076%	52.8%	100%	31.2%
California	32.3	866,436.0	2,063.13	15.72	2,078.85	1,030.54	133.22	187.48	727.61	\$64	\$23	0.240%	0.084%	49.6%	9.0%	35.0%
Colorado	3.9	105,785.0	360.89	1.86	362.75	215.11	20.91	32.14	94.59	\$93	\$24	0.343%	0.089%	59.3%	8.9%	26.1%
Connecticut	3.3	119,092.0	769.79	0.93	770.72	450.68	40.58	25.95	253.51	\$236	\$78	0.647%	0.213%	58.5%	3.4%	32.9%
Delaware	0.7	21,170.0	359.16	0.33	359.49	53.75	135.30	42.63	127.81	\$492	\$175	1.698%	0.604%	15.0%	11.9%	35.6%
D.C.	0.5	19,128.0	202.90	2.47	205.37	101.65	10.98	23.41	69.33	\$389	\$131	1.074%	0.362%	49.5%	11.4%	33.8%
Florida	14.7	371,547.0	2,070.06	15.17	2,085.23	1,027.51	117.79	122.40	817.53	\$142	\$56	0.561%	0.220%	49.3%	5.9%	39.2%
Georgia	7.5	181,433.0	1,650.97	9.69	1,660.66	857.28	118.17	116.99	568.22	\$222	\$76	0.915%	0.313%	51.6%	7.0%	34.2%
Idaho	1.2	25,169.0	86.98	0.66	87.64	53.32	4.85	11.07	18.40	\$72	\$15	0.348%	0.073%	60.8%	12.6%	21.0%
Illinois	11.9	338,706.0	1,569.44	15.99	1,585.43	827.41	81.14	89.71	587.17	\$133	\$49	0.468%	0.173%	52.2%	5.7%	37.0%
Indiana	5.9	139,130.0	578.93	4.34	583.27	322.88	37.98	46.10	176.31	\$99	\$30	0.419%	0.127%	55.4%	7.9%	30.2%
Iowa	2.9	66,789.0	173.65	0.92	174.57	96.90	09.89	24.35	43.43	\$61	\$15	0.261%	0.065%	55.5%	13.9%	24.9%
Kansas	2.6	63,322.0	185.36	0.91	186.27	98.31	10.41	20.70	56.85	\$72	\$22	0.294%	0.090%	52.8%	11.1%	30.5%
Kentucky	3.9	81,762.0	569.06	1.69	570.75	339.87	34.35	42.80	153.73	\$146	\$39	0.698%	0.188%	59.5%	7.5%	26.9%
Louisiana	4.4	90,871.0	280.65	3.22	283.87	139.77	14.10	28.37	101.63	\$65	\$23	0.312%	0.112%	49.2%	10.0%	35.8%
Maine	1.2	27,668.0	146.26	1.75	148.01	82.16	10.10	13.96	41.79	\$119	\$34	0.535%	0.151%	55.5%	9.4%	28.2%
Maryland	5.1	148,279.0	1,043.50		1,043.50	551.71	57.09	41.32	393.38	\$205	\$77	0.704%	0.265%	52.9%	4.0%	37.7%
Massachusetts	6.1	193,262.0	3,197.44	16.82	3,214.26	2,238.10	187.02	69.15	719.99	\$525	\$118	1.663%	0.373%	69.6%	2.2%	22.4%
Michigan	9.8	247,980.0	1,599.32	37.25	1,636.57	866.46	111.89	63.11	595.11	\$167	\$61	0.660%	0.240%	52.9%	3.9%	36.4%
Minnesota	4.7	127,214.0	368.52	4.31	372.83	224.45	19.04	40.88	88.46	\$80	\$19	0.293%	0.070%	60.2%	11.0%	23.7%
Missouri	5.4	130,487.0	439.59	1.34	440.93	241.86	27.75	38.65	132.67	\$82	\$25	0.338%	0.102%	54.9%	8.8%	30.1%
Montana	0.9	17,660.0	28.20	0.30	28.50	14.33	1.55	6.02	6.60	\$32	\$8	0.161%	0.037%	50.3%	21.1%	23.2%
Nebraska	1.7	40,287.0	76.62	1.12	77.74	40.40	3.83	12.92	20.59	\$47	\$12	0.193%	0.051%	52.0%	16.6%	26.5%
N.H.	1.2	32,896.0	176.79	2.81	179.60	102.15	9.50	13.75	54.20	\$153	\$46	0.546%	0.165%	56.9%	7.7%	30.2%
New Jersey	8.1	263,035.0	1,556.08	35.21	1,591.29	812.73	85.17	45.81	647.58	\$198	\$80	0.605%	0.246%	51.1%	2.9%	40.7%
New Mexico	1.7	34,154.0	82.08	-0.21	81.87	41.37	5.28	14.95	20.27	\$47	\$12	0.240%	0.059%	50.5%	18.3%	24.8%
New York	18.1	559,445.0	3,992.31	12.16	4,004.47	2,026.16	240.33	195.23	1,542.75	\$221	\$85	0.716%	0.276%	50.6%	4.9%	38.5%
Ohio	11.2	275,415.0	2,300.00	1.57	2,301.57	1,312.22	144.69	92.67	751.99	\$206	\$67	0.836%	0.273%	57.0%	4.0%	32.7%
Oregon (2)	3.2	80,046.0	333.07	5.46	338.53	207.62	20.44	32.23	78.24	\$104	\$24	0.423%	0.098%	61.3%	9.5%	23.1%
Pennsylvania	12.0	314,925.0	1,710.01	10.62	1,720.63	857.20	86.54	75.27	701.62	\$143	\$58	0.546%	0.223%	49.8%	4.4%	40.8%
R. Island (2)	1.0	25,600.0	142.61	0.75	143.36	79.29	15.72	3.3	45.06	\$145	\$46	0.560%	0.176%	55.3%	2.3%	31.4%
S. Dakota (2)	0.7	16,240.0	28.03	1.59	29.62	15.45	1.59	6.02	6.56	\$40	\$9	0.182%	0.040%	52.2%	20.3%	22.1%
Texas	19.4	460,215.0	3,745.47	18.72	3,764.19	2,151.74	187.39	245.26	1,179.80	\$194	\$61	0.818%	0.256%	57.2%	6.5%	31.3%
Vermont	0.6	13,952.0	77.32	0.42	77.74	46.05	3.90	4.06	23.73	\$132	\$40	0.557%	0.170%	59.2%	5.2%	30.5%
Virginia	6.7	178,236.0	920.83	11.38	932.21	475.38	49.53	64.83	342.47	\$138	\$51	0.523%	0.192%	51.0%	7.0%	36.7%
Washington	5.6	152,252.0	408.20	0.34	408.54	258.30	24.94	30.74	94.56	\$73	\$17	0.268%	0.062%	63.2%	7.5%	23.1%
W. Virginia (2)	1.8	34,585.0	162.78	1.42	164.20	92.80	8.14	19.63	43.63	\$90	\$24	0.475%	0.126%	56.5%	12.0%	26.6%
Wisconsin	5.2	127,478.0	431.09	5.12	436.21	244.02	24.51	29.96	137.72	\$84	\$27	0.342%	0.108%	55.9%	6.9%	31.6%
<b>Total</b>	<b>231.5</b>	<b>5,721,754</b>	<b>34,136.9</b>	<b>244.86</b>	<b>34,381.8</b>	<b>18,729.2</b>	<b>2,110.6</b>	<b>1,998.8</b>	<b>11,543.2</b>	<b>\$149</b>	<b>\$50</b>	<b>0.601%</b>	<b>0.202%</b>	<b>54.5%</b>	<b>5.8%</b>	<b>33.6%</b>
<b>VLTs (only)</b>																
Oregon (3)	3.2	80,046.0	3,636.67		3,636.67	3,243.48	131.17	35.41	226.61	\$1,121	\$70	4.543%	0.283%	89.2%	1.0%	6.2%
R. Island (3)	1.0	25,600.0	406.11		406.11	293.76	57.44		54.91	\$411	\$56	1.586%	0.214%	72.3%		13.5%
S. Dakota (3)	0.7	16,240.0	505.16		505.16	326.50	89.30		89.36	\$685	\$121	3.111%	0.550%	64.6%		17.7%
W. Virginia (3)	1.8	34,585.0	969.21		969.21	886.88	53.21		29.12	\$534	\$16	2.802%	0.084%	91.5%		3.0%
<b>Total</b>	<b>6.8</b>	<b>156,471.0</b>	<b>5,517.15</b>		<b>5,517.15</b>	<b>4,750.62</b>	<b>331.12</b>	<b>35.41</b>	<b>400.00</b>	<b>\$813</b>	<b>\$59</b>	<b>3.526%</b>	<b>0.256%</b>	<b>86.1%</b>	<b>0.6%</b>	<b>7.3%</b>
<b>Total</b>	<b>231.5</b>	<b>5,731,111.0</b>	<b>39,654.04</b>	<b>244.86</b>	<b>39,898.90</b>	<b>23,479.80</b>	<b>2,441.72</b>	<b>2,034.23</b>	<b>11,943.15</b>	<b>\$172</b>	<b>\$52</b>	<b>0.696%</b>	<b>0.208%</b>	<b>58.8%</b>	<b>5.1%</b>	<b>29.9%</b>

1) Fiscal year ends June 30 except New York (March 31), Texas (August 31) and D.C. and Michigan (Sept. 30).

2) Data represents only revenue from traditional lottery games and not video lottery terminal (VLT) operations

3) Data represents only revenue from video lottery terminal (VLT) operations

\* Source: U.S. Department of Commerce, Bureau of Economic Analysis, January 1998

Editor's Note: Combined traditional and VLT ticket sales are a higher figure than on page 221, because it incorporates VLT handle, not net machine income, as sales. This analysis also includes VLT prizes.

**U.S. LOTTERIES' FISCAL 1998 UNAUDITED SALES BY GAME**

(in \$millions)

	Pop.	Instant	Pull Tab	3-D	4-D	Lotto	Cash Lotto	Cash 4 Life	Power Ball	Keno	VLT	Other	Total Sales	PC Sales
Arizona	4.6	108.4		1.3		51.7	11.4		74.9			3.0	250.8	\$55
California	32.3	685.2		80.2		1090.7	161.8			277.7		7.2	2,302.8	\$71
Colorado	3.9	225.2				127.4	16.1			4.0		1.5	374.3	\$96
Connecticut	3.3	429.4		116.3	59.0	81.0	58.5		61.6				805.7	\$246
Delaware (2)	0.7	18.1		32.7	15.9		10.5		40.9		326.7	2.4	447.1	\$611
D.C. (1)	0.5	23.4		76.6	59.7		6.2	2.4	55.2			2.1	225.6	\$426
Florida	14.7	663.9		313.9	159.6	711.6	281.7						2,130.8	\$145
Georgia	7.5	609.8		627.4	120.2	216.6	98.1			64.0			1,736.1	\$232
Idaho	1.2	58.6	1.9			4.5	2.8		22.0				89.8	\$74
Illinois	11.9	618.3		344.7	145.3	356.8	111.8						1,577.0	\$133
Indiana	5.9	351.5	1.1	28.4	25.9	88.6	11.4	4.3	128.0			9.0	648.2	\$111
Iowa	2.9	90.6	27.0			5.0	7.8	2.2	37.4			3.9	173.9	\$61
Kansas	2.6	86.2	1.2	5.3			24.9	2.6	42.7	34.5			197.4	\$76
Kentucky	3.9	261.9	32.0	104.0	21.3	52.8	21.4		92.6				586.0	\$150
Louisiana	4.4	123.3		44.0		36.9	8.9		73.9			6.0	292.9	\$67
Maine	1.2	105.5		4.5	3.1	31.7	4.2						148.9	\$120
Maryland	5.1	162.2		338.5	182.1	106.3	34.5			259.8			1,083.4	\$213
Massachusetts	6.1	2,085.0	3.4	384.9		195.6	59.7			470.3		23.3	3,222.2	\$527
Michigan (1)	9.8	624.5		416.1	276.5	315.5	32.6			12.8			1,678.0	\$172
Minnesota	4.7	260.1		12.9			19.6	4.2	71.4			5.1	373.3	\$80
Missouri	5.4	257.3	29.1	49.7		28.2	23.7		101.2			5.2	494.3	\$92
Montana	0.9	7.7				3.7	4.8	0.5	12.1			1.0	29.8	\$34
Nebraska	1.7	39.8				0.8	5.3	1.2	24.8			1.8	73.8	\$45
N. Hampshire	1.2	116.1		7.9		16.8	5.0	1.3	34.4			2.3	183.8	\$157
New Jersey	8.1	518.6		451.5	253.2	290.6	113.4					3.0	1,630.3	\$202
New York	18.1	1,009.9		696.7	433.7	872.4	383.2			552.8		8.9	3,957.6	\$218
Ohio	11.2	1,131.4		421.1	124.0	384.9	73.5					60.5	2,195.4	\$196
Oregon (2)	3.2	121.9	6.4		0.8	37.4			37.8	96.7	407.5	9.3	717.8	\$221
Pennsylvania	12.0	469.2		544.6	247.0	237.2	170.4						1,668.4	\$139
R. Island (3)	1.0	40.2	0.2		29.3		3.3		43.3	51.6	464.1	2.2	634.1	\$642
S. Dakota (3)	0.7	14.5				1.5	1.9	0.4	8.0		528.0	0.7	555.0	\$752
Texas (1)	19.4	1,814.1		177.6		794.8	260.7					52.7	3,100.0	\$159
Vermont	0.6	59.3		1.2	0.9	10.9	1.8						74.1	\$126
Virginia	6.7	302.3		244.2	113.7	211.7	30.8					11.6	914.3	\$136
Washington	5.6	230.3		18.3		140.1	53.9			12.1			454.7	\$81
W. Virginia (2)	1.8	80.2	0.1	11.0	5.0		6.7	1.2	51.2	16.4	131.4	1.9	305.1	\$168
Wisconsin	5.2	246.6	6.3	27.9	8.4	20.3	33.3	3.7	65.3			6.8	418.6	\$81
<b>FY98 Total</b>	<b>231.5</b>	<b>14,099.3</b>	<b>108.6</b>	<b>5,583.4</b>	<b>2,284.8</b>	<b>6,523.9</b>	<b>2,158.3</b>	<b>23.9</b>	<b>1,109.8</b>	<b>1,852.7</b>	<b>1,857.6</b>	<b>233.7</b>	<b>35,836.2</b>	<b>\$155</b>
<b>FY97 Total</b>	<b>231.5</b>	<b>14,352.8</b>	<b>110.5</b>	<b>5,581.8</b>	<b>2,164.3</b>	<b>6,863.6</b>	<b>2,218.4</b>		<b>894.2</b>	<b>1,791.2</b>	<b>1,642.5</b>	<b>153.7</b>	<b>35,772.8</b>	<b>\$154</b>
<b>% Increase</b>		<b>-2%</b>	<b>-2%</b>	<b>0%</b>	<b>6%</b>	<b>-5%</b>	<b>-3%</b>		<b>24%</b>	<b>3%</b>	<b>13%</b>	<b>52%</b>		<b>0%</b>

1) Estimated FY98 sales; 2) Represents VLT net machine income; 3) Represents VLT cash in

Note: All lotteries' sales end June 30 except New York (March 31), Texas (August 31), D.C. and Michigan (September 30)

## U.S. LOTTERIES' UNAUDITED FY98 SALES, PRIZES & PROFITS

Lottery	Pop. (M)	FY Ends	Total Sales (SM)	PC Sales	Total Prizes (SM)	Gov't Profits (SM)	PC Gov't	Prize Payout	Gov't Return
Arizona	4.6	6/30	250.76	\$55	133.69	78.00	\$17	53%	31%
California	32.3	6/30	2,302.80	\$71	1,150.00	782.90	\$24	50%	34%
Colorado	3.9	6/30	374.28	\$96	222.81	97.58	\$25	60%	26%
Connecticut	3.3	6/30	805.65	\$246	481.64	264.28	\$81	60%	33%
Delaware	0.7	6/30	447.08	\$611	62.41	125.40	\$171	14%	28%
D.C. (1, 2)	0.5	9/30	225.59	\$426	111.67	76.25	\$144	50%	34%
Florida	14.7	6/30	2,130.85	\$145	1,065.42	809.72	\$55	50%	38%
Georgia	7.5	6/30	1,736.09	\$232	902.47	555.07	\$74	52%	32%
Idaho	1.2	6/30	89.80	\$74	52.78	20.50	\$17	59%	23%
Illinois	11.9	6/30	1,576.96	\$133	836.11	513.92	\$43	53%	33%
Indiana	5.9	6/30	648.17	\$111	379.87	191.38	\$33	59%	30%
Iowa	2.9	6/30	173.87	\$61	96.37	34.20	\$12	55%	20%
Kansas	2.6	6/30	197.44	\$76	101.67	60.30	\$23	51%	31%
Kentucky	3.9	6/30	586.03	\$150	350.08	156.73	\$40	60%	27%
Louisiana	4.4	6/30	292.90	\$67	147.07	108.04	\$25	50%	37%
Maine	1.2	6/30	148.89	\$120	85.02	41.85	\$34	57%	28%
Maryland	5.1	6/30	1,083.40	\$213	566.35	400.00	\$79	52%	37%
Massachusetts	6.1	6/30	3,222.17	\$527	2,185.95	790.00	\$129	68%	25%
Michigan (1)	9.8	9/30	1,677.96	\$172	907.03	633.32	\$65	54%	38%
Minnesota	4.7	6/30	373.33	\$80	226.82	87.58	\$19	61%	23%
Missouri	5.4	6/30	494.30	\$92	272.14	147.13	\$27	55%	30%
Montana	0.9	6/30	29.78	\$34	15.24	6.57	\$7	51%	22%
Nebraska	1.7	6/30	73.82	\$45	39.35	18.45	\$11	53%	25%
N.H.	1.2	6/30	183.81	\$157	105.99	55.60	\$47	58%	30%
New Jersey	8.1	6/30	1,630.30	\$202	869.80	621.90	\$77	53%	38%
New Mexico	1.7	6/30	85.04	\$49	43.46	18.47	\$11	51%	22%
New York	18.1	3/31	3,957.60	\$218	1,993.97	1,528.85	\$84	50%	39%
Ohio	11.2	6/30	2,195.41	\$196	1,250.00	723.86	\$65	57%	33%
Oregon	3.2	6/30	717.80	\$221	195.10	293.80	\$91	27%	41%
Pennsylvania	12.0	6/30	1,668.41	\$139	822.68	714.63	\$59	49%	43%
Rhode Island	1.0	6/30	634.13	\$642	429.41	114.54	\$116	68%	18%
South Dakota	0.7	6/30	555.00	\$752	358.00	97.20	\$132	65%	18%
Texas (1)	19.4	8/31	3,100.00	\$159	1,660.84	1,065.64	\$55	54%	34%
Vermont	0.6	6/30	74.07	\$126	44.37	22.19	\$38	60%	30%
Virginia	6.7	6/30	914.30	\$136	503.80	318.00	\$47	55%	35%
Washington	5.6	6/30	454.70	\$81	279.46	115.06	\$21	61%	25%
West Virginia	1.8	6/30	305.10	\$168	98.02	91.17	\$50	32%	30%
Wisconsin	5.2	6/30	418.57	\$81	241.32	130.12	\$25	58%	31%
<b>Total</b>	<b>231.5</b>		<b>35,836.14</b>	<b>\$155</b>	<b>19,288.20</b>	<b>11,910.23</b>	<b>\$51</b>	<b>54%</b>	<b>33%</b>

1) Estimated fiscal 1998 sales, 2) D.C. sales & prizes estimated by magazine