

# STATE OF LOUISIANA LEGISLATIVE AUDITOR

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

June 28, 2000



***Financial and Compliance Audit Division***

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

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

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

**Financial Statements and  
Independent Auditor's Reports  
As of and for the Year Ended December 31, 1999**

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

June 28, 2000

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

Financial Statements and  
Independent Auditor's Reports  
As of and for the Year Ended December 31, 1999

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

June 8, 2000

Independent Auditor's Report  
on the Financial Statements

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

We have audited the accompanying statement of net assets available for benefits of the Louisiana Lottery Corporation Optional Savings Plan as of December 31, 1999, and the related statement of changes in net assets available for benefits for the year then ended, as listed in the foregoing table of contents. These financial statements are the responsibility of the Louisiana Lottery Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Louisiana Lottery Corporation Optional Savings Plan as of December 31, 1999, and the changes in net assets available for benefits for the year then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 8, 2000, on our consideration of the Louisiana Lottery Corporation Optional Savings Plan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Daniel G. Kyle".

Daniel G. Kyle, CPA, CFE  
Legislative Auditor

CCR:THC:RCL:ss  
[LOTOSP]

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

**Statement of Net Assets Available for Benefits  
For the Year Ended December 31, 1999**

	MONEY MARKET FUND	MAS FIXED-INCOME PORTFOLIO	VANGUARD WELLINGTON	DREYFUS INSTITUTIONAL STANDARD & POOR'S 500 STOCK INDEX
<b>ASSETS</b>				
Investments (note 3)	\$57,774	\$72,025	\$356,724	\$1,189,313
Receivables:				
Employee contributions	307	217	1,894	4,498
Employer contributions	165	117	1,229	1,916
<b>TOTAL ASSETS</b>	<b>58,246</b>	<b>72,359</b>	<b>359,847</b>	<b>1,195,727</b>
<b>LIABILITIES</b>	<b>NONE</b>	<b>NONE</b>	<b>NONE</b>	<b>NONE</b>
<b>NET ASSETS AVAILABLE FOR BENEFITS</b>	<b>\$58,246</b>	<b>\$72,359</b>	<b>\$359,847</b>	<b>\$1,195,727</b>

The accompanying notes are an integral part of this statement.

Statement A

VANGUARD U.S. GROWTH PORTFOLIO	MAS VALUE PORTFOLIO	FRANKLIN SMALL CAP GROWTH FUND	FRANKLIN BALANCED SHEET INVESTMENT	TEMPLETON FOREIGN FUND	TOTAL
\$211,545	\$97,458	\$237,512	\$27,444	\$61,372	\$2,311,167
2,827	1,906	1,284	541	1,190	14,664
1,422	973	655	288	405	7,170
215,794	100,337	239,451	28,273	62,967	2,333,001
NONE	NONE	NONE	NONE	NONE	NONE
\$215,794	\$100,337	\$239,451	\$28,273	\$62,967	\$2,333,001

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

**Statement of Changes in Net Assets Available for Benefits  
For the Year Ended December 31, 1999**

	<u>MONEY MARKET FUND</u>	<u>MAS FIXED-INCOME PORTFOLIO</u>	<u>VANGUARD WELLINGTON</u>	<u>DREYFUS INSTITUTIONAL STANDARD &amp; POOR'S 500 STOCK INDEX</u>
<b>ADDITIONS TO ASSETS</b>				
Investment income	\$2,810	(\$704)	\$13,529	\$226,192
Contributions:				
Participant	2,193	7,370	25,080	55,141
Employer	1,369	2,404	12,620	25,352
Total additions	<u>6,372</u>	<u>9,070</u>	<u>51,229</u>	<u>306,685</u>
<b>DEDUCTIONS FROM ASSETS</b>				
Benefits paid to participants	<u>(3,145)</u>	<u>(6,173)</u>	<u>(16,849)</u>	<u>(33,714)</u>
Increase in net assets before interfund transfers	3,227	2,897	34,380	272,971
Interfund transfers, net	<u>4,116</u>	<u>(766)</u>	<u>(13,549)</u>	<u>(38,471)</u>
Increase in assets	7,343	2,131	20,831	234,500
<b>NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR</b>	<u>50,903</u>	<u>70,228</u>	<u>339,016</u>	<u>961,227</u>
<b>NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR</b>	<u><u>\$58,246</u></u>	<u><u>\$72,359</u></u>	<u><u>\$359,847</u></u>	<u><u>\$1,195,727</u></u>

The accompanying notes are an integral part of this statement.

Statement B

VANGUARD U.S. GROWTH PORTFOLIO	MAS VALUE PORTFOLIO	FRANKLIN SMALL CAP GROWTH FUND	FRANKLIN BALANCED SHEET INVESTMENT	TEMPLETON FOREIGN FUND	TOTAL
\$33,827	(\$3,097)	\$109,064	(\$461)	\$14,762	\$395,922
30,881	25,475	21,106	7,227	12,590	187,063
17,130	13,700	9,326	3,671	4,736	90,308
<u>81,838</u>	<u>36,078</u>	<u>139,496</u>	<u>10,437</u>	<u>32,088</u>	<u>673,293</u>
(4,059)	(3,113)	(1,964)	(1,107)	(1,575)	(71,699)
77,779	32,965	137,532	9,330	30,513	601,594
42,916	(7,656)	11,424	969	1,017	NONE
<u>120,695</u>	<u>25,309</u>	<u>148,956</u>	<u>10,299</u>	<u>31,530</u>	<u>601,594</u>
95,099	75,028	90,495	17,974	31,437	1,731,407
<u>\$215,794</u>	<u>\$100,337</u>	<u>\$239,451</u>	<u>\$28,273</u>	<u>\$62,967</u>	<u>\$2,333,001</u>

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

Notes to the Financial Statements  
As of and for the Year Ended December 31, 1999

**INTRODUCTION**

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. BASIS OF PRESENTATION**

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

**B. REPORTING ENTITY**

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

The accompanying financial statements present information only as to the transactions of the Corporation's Optional Savings Plan. Annually, the State of Louisiana issues general purpose financial statements which disclose the plan as a related organization of the state. The general purpose financial statements are audited by the Louisiana Legislative Auditor.

**C. BASIS OF ACCOUNTING**

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

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

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

**Investment Income**

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

**Plan Expenses**

Fees related to the administration of the Plan are paid by the Louisiana Lottery Corporation. Investment management fees are netted daily from investment income and, therefore, are not a liability of the Plan at December 31, 1999.

**D. VALUATION OF INVESTMENTS**

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

**2. DESCRIPTION OF THE PLAN**

The Optional Savings Plan is a voluntary Deferred Compensation Plan adopted under the provisions of IRC Section 457. Under the terms of the Plan, an employee is eligible to participate in the Plan as of the entry date that coincides with or immediately follows the date on which the employee completes a 90-day employment period. For the plan year, the sum of compensation deferred by a participant and the Corporation's matching contributions made on behalf of such participant shall not exceed the lesser of 33 1/3% of such participant's compensation or \$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 IRS Form W-2, increased by the amount of any deferral under this Plan.

A participant's matching contribution account is fully vested and nonforfeitable upon such participant's death, disability, or attainment of the normal retirement 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. Any forfeiture of nonvested amounts is reallocated to the matching accounts of all the remaining participants.

## LEGISLATIVE AUDITOR

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

Before August 20, 1996, under requirements of IRC Section 457, the assets in the Plan remained the property of the employer until paid or made available to participants, subject only to the claims of the employer's general creditors. On August 20, 1996, IRC Section 457 was amended by the Small Business Job Protection Act to require that all assets and income of the Plan be held in trust for the exclusive benefit of the participants and their beneficiaries. The Corporation amended the Optional Savings Plan on January 1, 1997, to reflect this change in the IRC.

Benefits are payable to former employees at the time and in the manner designated by the participants on a distribution election form. In no event may a participant defer payment of benefits later than April 1 of the calendar year immediately following the year in which the participant attains age 70½. The distribution of benefits shall be made either in the form of a single-sum payment or in the form of substantially equal annual installment payments not to exceed 15 years.

As of December 31, 1999, there were 110 participants in the Optional Savings Plan.

### 3. INVESTMENTS

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

Participants in the Plan can allocate the investment of employer and employee contributions in whole percentages to any combination of funds reflected on the following page and on Statement A. The investment allocations for current balances and future contributions can be changed on a daily basis.

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

At December 31, 1999, investments are composed of the following:

**LEGISLATIVE AUDITOR**

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

	<u>Number of Units</u>	<u>Fair Value</u>
Money Market Fund	20,207	\$57,774
MAS Fixed-Income Portfolio	5,336	72,025
Vanguard Wellington	9,652	356,724 (1)
Dreyfus Institutional Standard & Poor's 500 Stock Index	36,100	1,189,313 (1)
Vanguard U.S. Growth Portfolio	4,172	211,545 (1)
MAS Value Portfolio	5,174	97,458
Franklin Small Capital Growth Fund	5,034	237,512 (1)
Franklin Balanced Sheet Investment	780	27,444
Templeton Foreign Fund	4,207	61,372
		<hr/>
Total		<u>\$2,311,167</u>

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

**4. INVESTMENT MANAGEMENT FEES**

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

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

During the year ended December 31, 1999, investment management fees of \$8,432 were incurred.

## LEGISLATIVE AUDITOR

### LOUISIANA LOTTERY CORPORATION OPTIONAL SAVINGS PLAN STATE OF LOUISIANA Notes to the Financial Statements (Concluded)

#### 5. RELATED PARTY TRANSACTIONS

In addition to providing administrative and investment services for the Plan, PALIC offers a money market mutual fund product to plan participants. At December 31, 1999, investments in this product represent 2.5% of total plan assets. Of this figure, 100% represents monies held in separate asset accounts, which are not subject to the general creditors of Pan American Life Insurance Company.

#### 6. INCOME TAX STATUS

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

#### 7. TERMINATION

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

#### 8. LITIGATION

There is no pending litigation against the Plan at December 31, 1999.

**OTHER REPORT REQUIRED BY  
GOVERNMENT AUDITING STANDARDS**

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



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

June 8, 2000

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

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

We have audited the financial statements of the Louisiana Lottery Corporation Optional Savings Plan as of and for the year ended December 31, 1999, and have issued our report thereon dated June 8, 2000. 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 financial statements of the Louisiana Lottery Corporation Optional Savings Plan are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

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

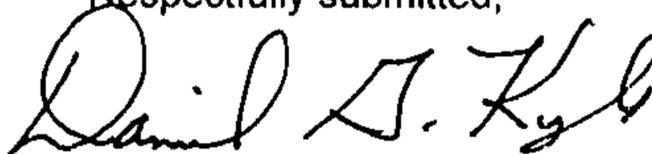
**EXHIBIT A**

LEGISLATIVE AUDITOR

BOARD OF DIRECTORS  
LOUISIANA LOTTERY CORPORATION  
OPTIONAL SAVINGS PLAN  
STATE OF LOUISIANA  
Compliance and Internal Control Report  
June 8, 2000  
Page 2

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

Respectfully submitted,



Daniel G. Kyle, CPA, CFE  
Legislative Auditor

CCR:THC:RCL:ss

[LOTOSP]