

LOUISIANA LOTTERY CORPORATION
BASIC AND SUPPLEMENTAL RETIREMENT PLANS
STATE OF LOUISIANA



FINANCIAL STATEMENT AUDIT
ISSUED JUNE 27, 2007

**LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397**

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LEGISLATIVE AUDITOR

STEVE J. THERIOT, CPA

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THOMAS H. COLE, CPA

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.

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Six copies of this public document were produced at an approximate cost of \$18.18. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's Web site at www.lla.state.la.us. When contacting the office, you may refer to Agency ID No. 6132 or Report ID No. 07100996 for additional information.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Wayne "Skip" Irwin, Director of Administration, at 225-339-3800.

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LOUISIANA LOTTERY CORPORATION
BASIC AND SUPPLEMENTAL RETIREMENT PLANS _____



STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

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June 8, 2007

Independent Auditor's Report
on the Financial Statements

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

We have audited the accompanying statement of net assets available for benefits of the Louisiana Lottery Corporation Basic and Supplemental Retirement Plans as of December 31, 2006, and the related statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Louisiana Lottery Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing auditing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Louisiana Lottery Corporation Basic and Supplemental Retirement Plans' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 Basic and Supplemental Retirement Plans as of December 31, 2006, and the changes in net assets available for benefits for the year then ended in conformity with accounting principles generally accepted in the United States of America.

During August and September of 2005, the State of Louisiana suffered considerable damage from two major hurricanes, Katrina and Rita, resulting in the President of the United States declaring Louisiana a major disaster area. Because of the severity of these two separate events

LOUISIANA LOTTERY CORPORATION
BASIC AND SUPPLEMENTAL RETIREMENT PLANS _____

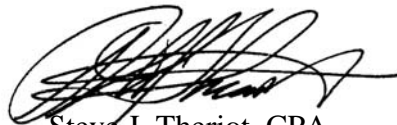
and the resulting losses sustained, it is unknown exactly what economic impact recovery will have on state and local governmental operations in Louisiana. While the Louisiana Lottery Corporation Basic and Supplemental Retirement Plans did not directly suffer any major effects of these two hurricanes, the long-term effects of these events directly on the plans cannot be determined at this time.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2007, on our consideration of the Louisiana Lottery Corporation Basic and Supplemental Retirement Plans' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 5 through 9 is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the accompanying financial statements of the Louisiana Lottery Corporation Basic and Supplemental Retirement Plans taken as a whole. The accompanying supplemental information schedule is presented for the purpose of additional analysis and is not a required part of the financial statements. The accompanying supplemental information schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

BF:WDD:THC:dl

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

**Management's Discussion and Analysis
For the Year Ended December 31, 2006**

This discussion of the Louisiana Lottery Corporation Basic and Supplemental Retirement Plans' financial statements provides an overview and analysis of the plans' financial position and activities for the year ended December 31, 2006. Please read it in conjunction with the plans' financial statements and notes to the financial statements.

Our annual report consists of two types of financial statements, a supplementary information schedule, and accompanying notes that provide narrative explanations and additional details of the plans' provisions and activities. The statements, supplementary information schedule, and notes are presented using the accrual method of accounting. Under this method, financial transactions are recorded when earned or incurred regardless of when cash is received or disbursed.

The statement of net assets available for benefits on page 11 includes all assets and liabilities of the plans. The balances reported are as of the year ended December 31, 2006. Assets consist of the fair value of units held for the benefit of participants under each investment fund. Fair value is based on deposit values and quoted market prices of the underlying investments. No liabilities exist because all expenses due from the plans are deducted monthly from investment income and all benefits due to participants were distributed as of the end of the year.

A summary of all financial activities that occurred during the twelve-month period ending December 31, 2006, is presented in the statement of changes in net assets available for benefits on page 13. The categories of activities included on this statement provide reasons for increases or decreases in plan net assets. Investment income includes all interest, dividends, and market value gains or losses earned by each investment fund during the year. This income is reflected net of the plans' administrative service provider's investment management fees. Participant and employer contributions are the funds deposited into participant accounts for each pay period during the year in

accordance with the terms of the plans. Withdrawals paid to terminated or retired employees are included in the benefits paid to participants' category. A description of contribution and distribution requirements can be found in note 2 to the financial statements beginning on page 16.

The supplementary information schedule on pages 24-25 presents the plans' activities and balances segregated by investment fund. Interfund transfers include participant-directed transfers of funds between investment accounts and the allocation of forfeited balances from nonvested participant accounts to the remaining active and eligible participant accounts.

The notes to the financial statements that begin on page 15 present information on accounting policies, plan provisions, investments, investment management fees, forfeitures, income tax status determinations, termination and merger provisions, and litigation. These notes are an integral part of the financial statements.

A condensed financial data comparison between the current year ended December 31, 2006, and the prior year ended December 31, 2005, is presented below.

	As of and for the year ended December 31, 2006	As of and for the year ended December 31, 2005	Change
Assets	\$9,638,160	\$8,084,158	\$1,554,002
Liabilities	NONE	NONE	NONE
Net assets available for benefits	<u>\$9,638,160</u>	<u>\$8,084,158</u>	<u>\$1,554,002</u>
Additions to assets:			
Net investment income	\$1,087,896	\$504,596	\$583,300
Contributions:			
Participant	321,602	313,385	8,217
Employer	545,888	562,389	(16,501)
Total additions	1,955,386	1,380,370	575,016
Deductions from assets:			
Benefits paid to participants	(401,384)	(785,224)	383,840
Increase (decrease) in net assets	<u>\$1,554,002</u>	<u>\$595,146</u>	<u>\$958,856</u>

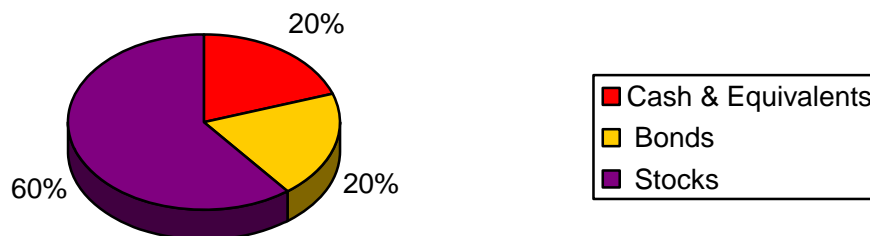
The assets of the plans increased by \$1,554,002 because the combination of investment income and contributions were greater than benefits paid to participants. The reasons for the activity in each component outlined as follows provide the rationale for this overall change.

Investment income

The average investment return on the plans' portfolio, calculated as investment income divided by the average asset balance for the year, was 12.28% in 2006 and 6.48% in 2005. The reasons for this investment performance include the asset allocation of the plans' investment portfolio, economic conditions, and the gains of the individual investment funds offered through the plans.

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

An estimated asset allocation of the plans' portfolio at December 31, 2006, is presented below.



This chart illustrates that the plans' investment performance is heavily dependent upon changes in the stock and bond markets. These financial markets tend to fluctuate with economic trends and conditions.

The United States and global economies continued on a moderate to strong growth trend. Robust corporate profits, sustained consumer confidence, stabilizing energy prices, consumer and business spending, and productivity have powered this growth. Gross domestic product increased 3.3% in 2006. The unemployment rate remained fairly tight at around 4.5% during the year. Interest rates increased but remained at relatively low levels. Consumer-price inflation was higher but was contained by monetary policy adjustments. These factors contributed to strong investment returns in the financial markets.

The three major stock market indicators performed for the years ending December 31, 2006, and December 31, 2005, as follows:

	<u>2006</u>	<u>2005</u>
Dow Jones Industrial Average (DJIA)	16.3%	-0.6%
Nasdaq Composite Index (NASDAQ)	9.5%	1.4%
Standard and Poor's 500 Index (S&P500)	13.6%	3.0%

In an effort to contain inflation, the Federal Reserve continued to raise the federal funds rate until late in the summer, when evidence of a cooling economy emerged. At that point, the rate had been increased 17 consecutive times since June 2004. The central bank left the rate unchanged at 5.25% for the remainder of the year. In addition, intermediate and long-term interest rates increased during the year. The ten-year Treasury note yield increased from 4.39% to 4.71% in 2006.

These economic factors had an impact on the performance of investments in 2006. Most domestic and international stock funds had impressive gains during the year. Short-term money market fund returns increased because of the Federal Reserve rate increases. The values of fixed-income funds containing mostly intermediate to long-term bonds were fairly stable in 2006 because intermediate and long-term interest rates slightly increased.

The investment performance of the individual funds offered through the plans was affected by the financial market environment and enhanced by the diversification of portfolio holdings across asset classes, styles, and management. Investment income generated by each fund is listed on the supplementary schedule on pages 24-25. The combination of the individual funds' gains resulted in the overall plans' investment income of \$1,087,896.

Contributions

Contributions to the plans slightly decreased in 2006 because of employee turnover that caused some positions to remain open for an extended time period. In addition, new employees must be employed for a minimum of ninety days to become eligible for Supplemental Plan contributions. Total 2006 wages were \$5,082,000 compared to 2005 wages of \$5,175,000. Contributions are calculated as a percentage of wages. The contribution provisions for both plans are outlined in note 2 to the financial statements beginning on page 16.

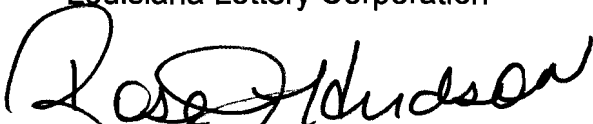
Benefits paid to participants

The amount of benefits paid out in any given year is dependent upon the volume of employee terminations or retirements, the length of service of these employees, the balances maintained in their accounts, and the distribution elections that determine the timing of payments. Differences in these factors can cause substantial variances in a year-to-year comparison of plan distributions. The distribution provisions for both plans are included in note 2 to the financial statements beginning on page 16.


This financial overview of the Basic and Supplemental Retirement Plans is provided as a supplemental analysis of the financial position and activities of the plans as of and for the year ended December 31, 2006. It is based on currently known facts and decisions and includes information about transactions, events, and conditions that are reflected in the financial statements and accompanying notes. The additional presentations and disclosures are included to assist the users of this report in understanding the financial results of these retirement plans.

Respectfully submitted,

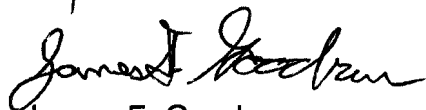
Employee Benefits Committee
Louisiana Lottery Corporation



Rose J. Hudson
President



Karen B. Fournet
Senior Vice President and
Secretary Treasurer



James F. Goodrum
Vice President of Finance and Controller

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

**Statement of Net Assets Available for Benefits
For the Year Ended December 31, 2006**

ASSETS	
Investments (note 3)	\$9,638,160
LIABILITIES	<u>NONE</u>
NET ASSETS AVAILABLE FOR BENEFITS	<u><u>\$9,638,160</u></u>

The accompanying notes are an integral part of this statement.

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**LOUISIANA LOTTERY CORPORATION
BASIC AND SUPPLEMENTAL RETIREMENT PLANS
STATE OF LOUISIANA****Statement of Changes in Net Assets Available for Benefits
For the Year Ended December 31, 2006****ADDITIONS**

Investment income	\$1,098,556
Less investment management fees (note 4)	<u>(10,660)</u>
Net investment income	1,087,896
Contributions:	
Participant	321,602
Employer	<u>545,888</u>
Total additions	1,955,386

DEDUCTIONS

Benefits paid to participants	<u>(401,384)</u>
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Net increase 1,554,002

**NET ASSETS AVAILABLE FOR BENEFITS,
BEGINNING OF YEAR**

8,084,158

**NET ASSETS AVAILABLE FOR BENEFITS,
END OF YEAR**

\$9,638,160

The accompanying notes are an integral part of this statement.

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INTRODUCTION

The Louisiana Lottery Corporation (Corporation) is authorized under Louisiana Revised Statute (R.S.) 47:9015(A) to provide or arrange for a retirement plan. The Corporation's Basic and Supplemental Retirement Plans (Plans) have been established pursuant to this statute.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and reporting principles.

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

B. REPORTING ENTITY

Using the criteria in GASB Codification Section 2100, the Division of Administration, Office of Statewide Reporting and Accounting Policy, has defined the governmental reporting entity to be the State of Louisiana. The Corporation is considered to be a component unit of the State of Louisiana because the state has financial accountability for the Corporation. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Corporation's financial statements.

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

C. BASIS OF ACCOUNTING

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

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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 investment management fees.

Plan Expenses

Fees related to the record keeping and administration of the Plans are paid by the Corporation. Investment management fees, which are based on the daily net assets, are deducted monthly from the investment income and, therefore, are not a liability of the Plans at December 31, 2006.

Benefits Paid to Participants

Benefits are recorded when paid.

D. VALUATION OF INVESTMENTS

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

2. DESCRIPTION OF THE PLANS

As of December 31, 2006, there were 140 participants in the Basic Plan and 107 participants in the Supplemental Plan.

A. BASIC RETIREMENT PLAN

The Corporation has a money purchase plan under Section 401(a) of the 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.

NOTES TO THE FINANCIAL STATEMENTS

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

A participant is fully vested immediately. In no event shall the assets of this plan revert for the benefit of the Corporation. No more than the social security wage base in effect 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 or the date on which the participant terminates his or her employment, if later. Subject to certain restrictions, a participant may also elect to receive a distribution upon attainment of age 62 without regard to whether the participant has terminated his or her employment. The participant shall make a qualified election to receive the distribution in the form of a single-sum payment or to purchase a qualified joint and survivor annuity or single life annuity contract. This qualified election may be revoked, modified, or amended at any time, or multiple times before the participant's annuity starting date; however, the qualified election is irrevocable as of the participant's annuity starting date.

B. SUPPLEMENTAL RETIREMENT PLAN

The Corporation has a defined contribution retirement plan that covers substantially all full-time employees. The plan is a governmental plan within the meaning of Section 414(d) of the IRC of 1986, as amended, and is intended to constitute a profit-sharing plan under which contributions are determined without regard to the current or accumulated profits of the Corporation, if any. The Corporation contributes 4.5% of each participant's compensation for the year, as defined. Generally, participants are not permitted to contribute to the plan; however, participants may contribute proceeds from a qualified rollover distribution as allowed by IRC Section 402. An eligible employee shall participate in the plan as of the entry date that coincides with or immediately follows the date on which the eligible employee completes 90 consecutive calendar days of employment with the Corporation.

In addition, each plan year, the Board of Directors of the Corporation may determine the amount of a discretionary contribution not to exceed 2% of each participant's compensation for any plan year.

A participant's amount shall be fully vested and nonforfeitable upon such participant's death, disability, or attainment of the normal retirement age (65 years of age) or upon the completion of three years of service. A year of service is a plan year in which a participant is credited with 1,000 hours of service. In no event shall the assets of this plan revert for the benefit of the Corporation.

LOUISIANA LOTTERY CORPORATION

BASIC AND SUPPLEMENTAL RETIREMENT PLANS

The distribution of a participant's vested and nonforfeitable portion of his/her account shall be made in the form of a single-sum payment after the participant terminates employment with the Corporation, attains the normal retirement age, or dies. A participant may elect to postpone the distribution, in writing on forms provided by the Employee Benefits Committee, provided, however, in no event shall distribution be postponed later than April 1 following the close of the calendar year in which the participant attains age 70½ or the date on which the participant terminates his or her employment, if later.

3. INVESTMENTS

Principal Life Insurance Company (PLIC) provides administrative and investment services for the Plans. The Plans' investments at December 31, 2006, are held in pooled separate accounts or trusts. The separate accounts are established through a flexible investment annuity group contract with PLIC and consist of proprietary Principal funds and nonproprietary Russell LifePoints mutual funds. The Principal Stable Value Signature Fund is held in a trust with Gartmore Trust Company serving as the trustee. Other mutual fund investments are offered through a group custodial agreement that includes Delaware Charter Guarantee & Trust Company as trustee.

The Corporation's Retirement Plans Investment Committee is responsible for designating the funds available for investment by Plan participants in accordance with its formal investment policy. The primary objectives of the investment program are to provide quality investment options, allow participants to exercise control over the investment of their retirement accounts, and offer access to an appropriate range of prudent investment options that enables participants to construct a well-diversified portfolio. The policy includes qualitative and quantitative criteria for selecting and monitoring investment options and managers for both debt and equity investment funds. No specific credit ratings for funds invested in debt securities are required. In addition, the policy does not specifically address requirements for interest rate or foreign currency risk.

Participants in the Supplemental Plan can allocate the investment of employer contributions in whole percentages to any combination of funds reflected on the following page and on Schedule 1. Basic Plan participants can direct the investment of participant and employer contributions to any of the five Russell LifePoints Separate Accounts. The investment allocations in both plans for current balances and future contributions can be changed daily.

NOTES TO THE FINANCIAL STATEMENTS

At December 31, 2006, investments are composed of the following:

	Number of Units	Fair Value
Principal Stable Value Signature Fund (Gartmore Trust Company - Trustee)	4,205	\$65,049
PLIC Flexible Investment Annuity Group Contract		
Separate Accounts:		
Proprietary Funds:		
Principal Bond & Mortgage	120	81,482
Principal Large Cap Stock Index	7,084	350,109
Principal Partners:		
Large-Cap Blend	6,489	81,147
Large-Cap Value	1,572	25,735
Large-Cap Growth I	6,321	58,569
Mid-Cap Growth	13,659	176,408
Small-Cap Growth II	5,753	62,913
Small-Cap Value I	4,611	105,261
Nonproprietary Funds:		
Russell LifePoints Separate Accounts:		
Conservative Strategy (1)	6,534	97,102
Moderate Strategy (1)	26,049	405,002
Balanced Strategy (1)	302,555	4,974,489
Growth Strategy (1)(2)	149,478	2,410,287
Equity Growth Strategy (1)(2)	35,010	563,640
Mutual Fund Investments		
(Delaware Charter Guarantee & Trust Company - Trustee):		
American Century Equity Income Adv Fund	4,313	37,050
American Funds Growth Fund of America R3 Fund	897	29,098
American Funds Europacific Growth R3 Fund (1)	2,501	114,819
Total		\$9,638,160

(1) Funds contain investments in international securities. In the Russell Lifepoints funds, approximately 3% of Conservative, 11% of Moderate, 19% of Balanced, 23% of Growth, and 29% of Equity Growth are invested in international mutual funds. The American Funds Europacific Growth R3 Fund is an international mutual fund.

(2) In previous years, fund names were Russell Aggressive Strategy and Equity Aggressive Strategy.

LOUISIANA LOTTERY CORPORATION
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The average maturities for funds that have a material allocation to debt investments are as follows:

Principal Stable Value Signature Fund	3.30 years
Principal Bond and Mortgage	5.50 years
Russell LifePoints Class D Conservative Strategy	3.45 years
Bond Holdings:	
Russell Short Duration Bond S (58.07%)*	
Russell Diversified Bond S (22.07%)*	
Russell LifePoints Class D Moderate Strategy	4.21 years
Bond Holdings:	
Russell Short Duration Bond S (32.65%)*	
Russell Diversified Bond S (26.83%)*	
Russell LifePoints Class D Balanced Strategy	6.05 years
Bond Holdings:	
Russell Diversified Bond S (20.00%)*	
Russell Multistrategy Bond S (19.99%)*	
Russell LifePoints Class D Growth Strategy	5.80 years
Bond Holdings -	
Russell Multistrategy Bond S (20.12%)*	

*Percentages indicate the portion of each strategy that is allocated to the bond funds.

Most of the funds' underlying debt security investments have credit quality ratings, but the funds are not rated.

Investments in mortgage-backed securities are based on flows from payments on the underlying mortgages that contain prepayment options which cause them to be highly sensitive to changes in interest rates. Generally, when interest rates fall, obligees tend to prepay the assets, thus eliminating the stream of interest payments that would have been received under the original amortization schedule. This reduced cash flow diminishes the fair value of the asset-backed investment. The percentage allocation of portfolio holdings that are invested in mortgage-backed securities for the funds or Russell LifePoints underlying funds is as follows:

Principal Bond and Mortgage	39%
Russell Short Duration Bond S	20%
Russell Diversified Bond S	52%
Russell Multistrategy Bond S	45%

4. INVESTMENT MANAGEMENT FEES

An administrative asset-based fee of 0.20% is assessed to the Basic Plan only pursuant to a service and expense agreement with PLIC. This fee, which is based on the daily net assets, is deducted monthly from the Russell LifePoints Separate Accounts.

During the year ended December 31, 2006, investment management fees of \$10,660 were incurred.

5. FORFEITURES

A participant's Supplemental Plan nonvested employer contribution account is forfeited at the close of the plan year in which the participant's employment with the Corporation is terminated. These forfeitures are reallocated to the employer contribution accounts of all remaining participants based on the proportion that each participant's compensation bears to total compensation of all participants. During the year ended December 31, 2006, a total of \$7,071 in forfeited nonvested accounts from the previous plan year was reallocated to the accounts of the remaining participants. In addition, a balance of \$7,075 remains in the forfeitures account at December 31, 2006. These funds represent forfeited nonvested accounts for the 2006 plan year that will be reallocated to the remaining participants during the 2007 plan year.

6. INCOME TAX STATUS

The Plans obtained favorable determination letters from the IRS on July 3, 2002. The IRS stated that the Plans, as then designed, were in compliance with the applicable requirements of the IRC. The Plans have been amended since receiving the determination letters. However, the Plans' tax counsel believes that the Plans are currently designed and are being operated in compliance with the applicable requirements of the IRC. Therefore, the Plans were qualified and were tax-exempt as of the financial statement date.

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

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8. MERGERS

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

9. LITIGATION

There is no pending litigation against the Plans at December 31, 2006.

**SCHEDULE OF CHANGES IN NET ASSETS AVAILABLE
FOR BENEFITS, BY INVESTMENT OPTION**

Whereas Statement B presents the totals for the Plans as a whole, Schedule 1 presents the changes in net assets available for benefits by investment option for the year ended December 31, 2006.

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

**Schedule of Changes in Net Assets Available
 for Benefits, by Investment Option
 For the Year Ended December 31, 2006**

	NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	INVESTMENT INCOME	INVESTMENT MANAGEMENT FEES
Investments offered through			
Principal Life Insurance Company:			
Principal Stable Value Signature Fund	\$70,840	\$2,443	
Principal Bond & Mortgage	99,987	3,772	
Principal Large Cap Stock Index	442,014	52,885	
Principal Partners:			
Large-Cap Blend	98,079	12,334	
Large-Cap Value	25,550	5,155	
Large-Cap Growth I	117,456	2,942	
Mid-Cap Growth	234,765	10,924	
Small-Cap Growth II	50,058	5,181	
Small-Cap Value I	86,772	15,832	
Russell LifePoints:			
Conservative Strategy	14,427	2,921	(\$33)
Moderate Strategy	43,870	11,617	(107)
Balanced Strategy	4,843,787	581,371	(7,647)
Growth Strategy	1,403,662	281,451	(1,971)
Equity Growth Strategy	434,197	84,141	(902)
American Century Equity Income Adv Fund	21,757	4,658	
American Funds Growth Fund of America R3 Fund	28,229	2,960	
American Funds Europacific Growth R3 Fund	68,708	17,969	
	<u>\$8,084,158</u>	<u>\$1,098,556</u>	<u>(\$10,660)</u>
Total			

<u>PARTICIPANT CONTRIBUTIONS</u>	<u>EMPLOYER CONTRIBUTIONS</u>	<u>BENEFITS PAID TO PARTICIPANTS</u>	<u>INTERFUND TRANSFERS</u>	<u>NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR</u>
	\$766	(\$3,097)	(\$5,903)	\$65,049
	622	(844)	(22,055)	81,482
	6,327	(20,895)	(130,222)	350,109
	2,390	(17,075)	(14,581)	81,147
	3,204		(8,174)	25,735
	5,823	(11,391)	(56,261)	58,569
	10,945	(6,368)	(73,858)	176,408
	7,466		208	62,913
	9,707	(5,091)	(1,959)	105,261
\$1,086	9,226		69,475	97,102
3,694	17,564	(9,076)	337,440	405,002
222,664	264,441	(301,825)	(628,302)	4,974,489
73,987	153,691	(16,563)	516,030	2,410,287
20,171	27,715	(4,305)	2,623	563,640
	3,699	(1,730)	8,666	37,050
	8,460	(462)	(10,089)	29,098
	13,842	(2,662)	16,962	114,819
<u>\$321,602</u>	<u>\$545,888</u>	<u>(\$401,384)</u>	<u>NONE</u>	<u>\$9,638,160</u>

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OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

The following pages contain a report on internal control and on compliance with laws and regulations and other matters 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 and other matters that would be material to the presented financial statements.

LOUISIANA LOTTERY CORPORATION
BASIC AND SUPPLEMENTAL RETIREMENT PLANS _____



STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

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

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June 8, 2007

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

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

We have audited the financial statements of the Louisiana Lottery Corporation Basic and Supplemental Retirement Plans as of and for the year ended December 31, 2006, and have issued our report thereon dated June 8, 2007. Our report was modified to include an emphasis of a matter regarding the impact of hurricanes Katrina and Rita. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Louisiana Lottery Corporation Basic and Supplemental Retirement Plans' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Louisiana Lottery Corporation Basic and Supplemental Retirement Plans' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

LOUISIANA LOTTERY CORPORATION
BASIC AND SUPPLEMENTAL RETIREMENT PLANS _____

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

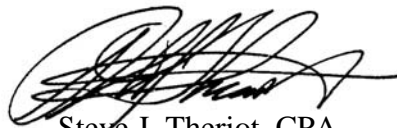
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Louisiana Lottery Corporation Basic and Supplemental Retirement Plans' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Corporation, its board, its management, others within the entity, and the Louisiana State Legislature 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,



Steve J. Theriot, CPA
Legislative Auditor

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