

**STATE OF NEW JERSEY,
DEPARTMENT OF THE TREASURY,
DIVISION OF STATE LOTTERY**

Financial Statements
and Supplementary Information

Years Ended June 30, 2007 and 2006

STATE OF NEW JERSEY, DEPARTMENT OF THE TREASURY, DIVISION OF
STATE LOTTERY

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INDEPENDENT AUDITORS' REPORT

State of New Jersey
Department of the Treasury
Division of State Lottery

We have audited the accompanying financial statements of the State of New Jersey, Department of the Treasury, Division of State Lottery (the "Division of State Lottery") as of and for the years ended June 30, 2007 and 2006. These financial statements are the responsibility of the Division of State Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 financial statements referred to above present fairly, in all material respects, the financial position of the State of New Jersey, Department of the Treasury, Division of State Lottery at June 30, 2007 and 2006, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2007 on our consideration of Division of State Lottery's internal control over financial reporting and 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.

PENNSYLVANIA OFFICE:
86 BUCK ROAD
HOLLAND, PA 18966
TEL 215-355-4860
FAX 215-825-8110

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* AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
* NEW JERSEY SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT AUDITORS' REPORT (CONTINUED)

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules included in the supplementary information are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information, except for the portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

Mercaderia, P.C.
Certified Public Accountants

November 27, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

The following discussion and analysis provides an analytical overview of the financial position and activities of the State of New Jersey, Department of the Treasury, Division of State Lottery (the "Division of State Lottery") for the years ended June 30, 2007 and 2006. This statement was prepared by management and should be read in conjunction with the financial statements and notes hereto, which follow this section.

The Division of State Lottery was established in 1970 pursuant to the "State Lottery Law," N.J.S.A. 5:9-1 et seq. The Division of State Lottery operates within the Department of Treasury of the State of New Jersey. The New Jersey Lottery Commission is a seven-member board, appointed by the Governor, authorized and empowered to promulgate rules and regulations in the operation of the Lottery. The "State Lottery Law" also mandates that a minimum of 30% of gross revenues from ticket sales be allocated for contributions to state aid for education and state institutions (N.J.S.A. 5:9-7a (11)).

The Division of State Lottery licenses over 6,100 retailers throughout the State of New Jersey to act as retailers in the sale of New Jersey Lottery tickets. Lottery retailers receive compensation in the form of commissions on each ticket sold or validated. The Division of State Lottery also contracts with various ticket vendors in the production, distribution and management of lottery products.

- Gtech Corporation is contracted to provide ticket sales through the online terminal network and the warehousing and distribution of instant tickets and promotional materials.
- Pollard Bank Note, Scientific Games and Gtech Printing are contracted to print and support instant game products.
- Verizon Communications is contracted to provide digital communication between the Division of State Lottery's 6,100 sales terminals and the Gtech data center.

The Division of State Lottery offers various products for sale with prize awards ranging from \$1.00 to annuity prizes in excess of \$100 million. The various products sold are:

- Instant Games
- Pick 3 (Including Pick 3 Instant Match)
- Pick 4 (Including Pick 4 Instant Match)
- Jersey Cash 5
- Pick 6 Lotto
- Mega Millions
- Raffle Games

FINANCIAL HIGHLIGHTS

The Division of State Lottery's financial position at June 30, 2007 and 2006, consisted of total assets of \$923 million and \$977 million, respectively, and total liabilities of \$913 million and \$964 million, respectively. A substantial portion of the asset and liability numbers is due to the Division of State Lottery's annuity investment in prize awards. The total amounts invested and due to Division of State Lottery winners as future installment payments at June 30, 2007 and 2006, were \$740 million and \$799 million, respectively. Net assets decreased from \$13 million in 2006 to \$11 million in 2007, due to utilization of unclaimed prize reserves to fund various game prize initiatives which is reflected in prize expense.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL STATEMENTS

The Division of State Lottery's financial statements include statements of net assets as of June 30, 2007 and 2006, statements of revenues, expenses and changes in net assets for the years ended June 30, 2007 and 2006, and statements of cash flows for the years ended June 30, 2007 and 2006. The financial statements are prepared in accordance with the accounting principles established by the Governmental Accounting Standards Board.

Statements of Net Assets

The statements of net assets present the Division of State Lottery's financial position as of the last day of the fiscal year. The Division of State Lottery's assets, liabilities and net assets are summarized as follows (in millions):

	June 30,	
	2007	2006
Current Assets	\$ 330	\$ 332
Deposit Fund Contracts	593	645
Total Assets	<u>923</u>	<u>977</u>
Current Liabilities	318	318
Non-Current Liabilities	594	646
Total Liabilities	<u>912</u>	<u>964</u>
Restricted Net Assets	8	10
Unrestricted Net Assets	3	3
Total Net Assets	<u>\$ 11</u>	<u>\$ 13</u>

Current assets consist of cash and investment in the State of New Jersey Cash Management Fund (the "NJCMF"), accounts receivable, current year annuity investments and prepaid expenses. The investment in the NJCMF totaled \$155 million and \$145 million at June 30, 2007 and 2006, respectively.

The Division of State Lottery funds long-term installment prizes with insurance company annuities and United States Treasury securities. The total value of these investments was \$740 million and \$799 million as of June 30, 2007 and 2006, respectively. The Division of State Lottery has annuity investments with twelve (12) insurance companies. The total market value of the United States Treasury securities was \$38 million and \$31 million at June 30, 2007 and 2006, respectively. The annuity prizes due in fiscal years 2009 and beyond totaled \$593 million and represent the non-current assets reported on the Division of State Lottery's statements of net assets.

Current liabilities consist of unpaid prize awards, accounts payable and outstanding contributions due to the State of New Jersey General Fund. The total unpaid prizes due and payable totaled \$62 million and \$64 million as of June 30, 2007 and 2006, respectively. There is also \$146 million due to annuity winners in fiscal year 2008.

Non-current liabilities represent annuity prize awards due in fiscal years beyond 2008 and the total due for unused vacation and sick leave.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL STATEMENTS (CONTINUED)

Statements of Net Assets (Continued)

Net assets represent the excess of the Division of State Lottery's assets over its liabilities and are summarized as follows (in millions):

	June 30.	
	2007	2006
Restricted (Expired Prize Awards)	\$ 8	\$ 10
Unrestricted	3	3
Total Net Assets	\$ 11	\$ 13

Expired prizes are restricted to fund either future prizes or state contributions.

Statements of Revenues, Expenses and Changes in Net Assets

The results of the Division of State Lottery's operations are presented in the statements of revenues, expenses and changes in net assets, which is summarized (in millions) as follows:

	Year Ended June 30.	
	2007	2006
Operating revenues		
Ticket sales	\$ 2,351	\$ 2,406
Forfeited prizes	40	35
Miscellaneous income	1	1
Total operating revenue	2,392	2,442
Operating expenses		
Prize expenses	1,359	1,380
Bad debt expense	1	1
Administration expense	28	30
Retailer commissions	131	134
Vendor fees	45	48
Networking fees	7	9
Drawing broadcast fees	1	1
Total operating expenses	1,572	1,603
Operating income	820	839
Investment income	6	5
Income before transfers	826	844
Operating transfers - state contributions	828	844
Decrease in net assets	\$ (2)	\$ -

The Division of State Lottery awarded over \$1.359 billion in prize awards in fiscal year 2007 and approximately \$1.380 billion in fiscal year 2006. Over 102 million winning tickets were validated and paid in fiscal year 2007, and a similar amount were validated and paid in fiscal year 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL STATEMENTS (CONTINUED)

Statements of Revenues, Expenses and Changes in Net Assets (Continued)

The Division of State Lottery's vendors provided critical services to the Division of State Lottery, including the production, warehousing, distribution and accounting for all lottery tickets. The total compensation paid for the Division of State Lottery's vendors and network fees was \$52 million in fiscal year 2007 and \$58 million in fiscal year 2006. Drawing broadcast fees were approximately \$1 million for both June 30, 2007 and 2006.

The Division of State Lottery's administrative expenses for the fiscal years 2007 and 2006 totaled \$28 million and \$30 million, respectively. These administrative expenses include salaries, advertising, auditing services, rent, security, data processing services, office supplies and attorney general fees. The majority of the decrease in administrative expenses for fiscal year 2007 was for advertising.

The Division of State Lottery is required by State of New Jersey law to contribute at least 30% of gross revenues from ticket sales to the State of New Jersey Treasury for state aid for education and state institutions. As a result of various sales initiatives, game enhancements, and efficient operations, the Division of State Lottery contributed \$828 million, 35% of total revenues, in fiscal year 2007 and \$844 million, 35% of total revenues, in fiscal year 2006. The majority of the decrease in contributions to the state is attributed to a state government budget impasse that shut down most of state government, including the Division of State Lottery, from July 1, 2006 (8:00 pm) through July 8, 2006 (6:45 am). During the shutdown, the Division of State Lottery discontinued sales but continued to hold drawings for advance wagers made prior to shutdown. It is estimated that approximately \$13 million in contributions were lost during this time period. The balance of the decrease is attributed to lower-than-expected jackpots in the Pick 6 and Mega Millions games.

Statements of Cash Flows

The statements of cash flows are summarized (in millions) as follows:

	<u>Year Ended June 30.</u>	
	<u>2007</u>	<u>2006</u>
Cash flows provided by operating activities	\$ 819	\$ 866
Cash flows used in non-capital financing activities	(819)	(847)
Cash flows used in investing activities	(3)	(16)
Net (decrease) increase in cash	<u>\$ (3)</u>	<u>\$ 3</u>

SUMMARY AND OUTLOOK

The Division of State Lottery continues its position as a major revenue source for the State of New Jersey. Lottery revenue funds various educational and institutional programs throughout the state.

Division of State Lottery management will continue to monitor its product mix to maintain player interest. To this end, the following programs and products have proven to be successful in maintaining this interest:

- Free play coupons
- Pick 3 "Green Ball"
- Pick 4 "Red Ball"
- Raffle games
- Free raffle tickets with purchase of various games

Management will also monitor prize payout percentages and drawing odds in order to achieve an effective mix, which will be beneficial both to players and to the state contributions.

**STATE OF NEW JERSEY, DEPARTMENT OF THE TREASURY,
DIVISION OF STATE LOTTERY**

STATEMENTS OF NET ASSETS

	June 30.	
	2007	2006
ASSETS		
Current Assets		
Cash	\$ 293,442	\$ 3,228,501
Accounts receivable, net of allowance for doubtful accounts of \$1,250,000 in 2007 and \$650,000 in 2006	15,617,256	13,740,316
Investments		
Deposit Fund Contracts	146,139,504	153,857,004
State of New Jersey Cash Management Fund	154,969,265	145,453,450
Other assets	12,702,643	15,270,368
Total current assets	329,722,110	331,549,639
Non-Current Assets		
Investments - deposit fund contracts	593,234,557	644,974,326
Total Assets	922,956,667	976,523,965
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	23,993,237	23,619,358
Obligation for unpaid prize awards	61,916,617	64,216,529
Installment prize awards	146,139,504	153,857,004
Due to State of New Jersey - education and state institutions	86,126,155	76,155,935
Total current liabilities	318,175,513	317,848,826
Non-Current Liabilities		
Compensated absences	1,120,208	998,542
Installment prize awards	593,234,557	644,974,326
Total non-current liabilities	594,354,765	645,972,868
Total liabilities	912,530,278	963,821,694
NET ASSETS		
Restricted for prize awards or contributions for aid to education and state institutions	7,599,765	9,875,921
Unrestricted	2,826,624	2,826,350
Total net assets	\$ 10,426,389	\$ 12,702,271

**STATE OF NEW JERSEY, DEPARTMENT OF THE TREASURY,
DIVISION OF STATE LOTTERY**

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	<u>Year ended June 30,</u>	
	<u>2007</u>	<u>2006</u>
Operating revenues		
Ticket Sales		
Pick 3	\$ 448,807,318	\$ 458,716,926
Pick 4	256,009,771	260,267,470
Jersey Cash 5	119,265,344	125,903,092
Pick 6 Lotto	87,448,520	102,732,860
Mega Millions	236,629,538	317,207,674
Raffle sales	10,000,000	-
Instant games	1,193,119,013	1,141,676,642
Sales discounts	<u>(387,672)</u>	<u>(587,835)</u>
Total ticket sales	2,350,891,832	2,405,916,829
Other revenues		
Forfeited prizes	40,416,837	34,737,378
Miscellaneous	<u>1,026,409</u>	<u>852,043</u>
Total operating revenues	<u>2,392,335,078</u>	<u>2,441,506,250</u>
Operating expenses		
Prize expenses	1,359,400,245	1,380,414,193
Amortization expense	34,081	26,854
Bad debt expense	600,000	500,000
Administrative expenses	28,427,879	29,564,516
Retailer commissions	131,242,482	133,595,624
Online vendor fees	27,992,821	31,461,000
Instant vendor fees	16,690,120	16,633,464
Multi-state fees	14,939	19,313
Online network fees	6,917,906	9,394,721
Drawing broadcast fees	<u>1,141,548</u>	<u>1,141,548</u>
Total operating expenses	<u>1,572,462,021</u>	<u>1,602,751,233</u>
Operating income	819,873,057	838,755,017
Non-operating revenue		
Interest	<u>6,177,216</u>	<u>4,633,134</u>
Income before transfers out	826,050,273	843,388,151
Transfers out - contributions for state aid to education and state institutions	<u>828,326,155</u>	<u>844,155,935</u>
Change in net assets	(2,275,882)	(767,784)
Net assets, beginning of year	<u>12,702,271</u>	<u>13,470,055</u>
Net assets, end of year	<u>\$ 10,426,389</u>	<u>\$ 12,702,271</u>

**STATE OF NEW JERSEY, DEPARTMENT OF THE TREASURY,
DIVISION OF STATE LOTTERY**

STATEMENTS OF CASH FLOWS

	Year ended June 30.	
	2007	2006
Cash Flows from Operating Activities		
Sales to customers	\$1,162,505,685	\$1,257,696,195
Payments for prize awards	(285,197,563)	(323,000,738)
Payments for vendor commissions and fees	(52,993,342)	(57,422,846)
Payments to suppliers	(29,898,895)	(33,930,650)
Other payments	(187,098)	(1,560)
Cash flows from annuity operations		
Annuity receipts	145,634,710	154,726,746
Purchases of annuities	(16,389,585)	(11,942,462)
Payments of annuity prizes	(104,714,436)	(119,790,876)
Net cash provided by operations	818,759,476	866,333,809
 Cash Flows used in Non-Capital Financing Activities		
Contributions for aid to education and state institutions	(818,355,935)	(847,546,974)
 Cash Flows from Investment Activities		
Cash Management Fund proceeds	1,121,854,000	1,204,545,000
Cash Management Fund purchases	(1,125,192,600)	(1,220,625,000)
Net cash used in investment activities	(3,338,600)	(16,080,000)
 Net (decrease) increase in cash	(2,935,059)	2,706,835
Cash, beginning of year	3,228,501	521,666
Cash, end of year	\$ 293,442	\$ 3,228,501
 Reconciliation of operating income to net cash provided by operating activities		
Operating Income	\$ 819,873,057	\$ 838,755,017
Changes in assets and liabilities		
Accounts receivable	(1,876,940)	13,606,039
Investments - deposit fund contracts	59,457,269	105,452,022
Other assets	2,567,725	(380,561)
Accounts payable and accrued expenses	373,879	798,240
Obligation for unpaid prize awards	(61,757,182)	(92,019,092)
Compensating absences	121,668	122,144
Net cash provided by operating activities	\$ 818,759,476	\$ 866,333,809

**STATE OF NEW JERSEY, DEPARTMENT OF THE TREASURY,
DIVISION OF STATE LOTTERY**

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The State of New Jersey, Department of the Treasury, Division of State Lottery (the "Division of State Lottery") and the State Lottery Commission (the "Commission") were concurrently established in 1970, pursuant to the "State Lottery Law" (N.J.S.A. 5:9-1 et seq.). The Division of State Lottery operates within the Department of the Treasury of the State of New Jersey. The Commission consists of the State Treasurer and six public members and is authorized and empowered to promulgate rules and regulations regarding the conduct of lottery games, including the price or prices of tickets, the number and size of prizes on winning tickets, the licensing of retailers, and the apportionment of ticket revenues. The Division of State Lottery's financial statements are presented as those of an enterprise fund and include the operations for which the Division of State Lottery is financially accountable and exercises oversight responsibility.

Basis of Accounting

The Division of State Lottery prepares its financial statements using the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred. Governmental Accounting Standards Board ("GASB") Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that Use Proprietary Fund Accounting*, provides proprietary activities with a choice of authoritative guidance issued after November 30, 1989. The Division of State Lottery has elected to follow GASB pronouncements exclusively after that date.

Contributions and Prize Awards

The State Lottery Law requires no less than 30% of total revenues from ticket sales to be paid to the State Treasury for state aid for education and state institutions. Contributions for the years ended June 30, 2007 and 2006, aggregated \$828,326,155 and \$844,155,935, respectively, of which \$86,126,155 and \$76,155,935 was due to the State Treasury at June 30, 2007 and 2006, respectively.

For machine games, the Division of State Lottery has designated that a minimum of 45% of gross revenues be allocated for prize awards, including retailer bonuses. Prize expense is recorded when the winning ticket number is selected for the respective lottery game based on eligible winning tickets sold. For instant games, the percentage of gross revenues to be allocated for prize awards varies by game.

Forfeited Prizes

The State Lottery Law requires that prizes not claimed within one year from the date of the drawing for machine games and within one year from the date of the game's closing for instant games be forfeited. 70% of forfeited prizes are to be maintained in a reserve for prize awards and are available to augment future prize awards or, at the discretion of the executive director, to augment the Division of State Lottery's contribution for state aid for education and state institutions.

**STATE OF NEW JERSEY, DEPARTMENT OF THE TREASURY,
DIVISION OF STATE LOTTERY**

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Forfeited Prizes (Continued)

The remaining 30% is unrestricted. Forfeited prizes are recognized as "Other Revenues" during the period forfeited. For the years ended June 30, 2007 and 2006, forfeited prizes were \$40,416,837 and \$34,737,378, respectively.

Revenue Recognition

Revenues from the sale of lottery tickets are recognized as follows:

- "Pick-3," "Pick-4," "Jersey Cash 5," "Pick-6 Lotto," "Mega Millions" (formerly "The Big Game"), and various raffle games on the drawing date.
- Instant games are recognized daily, based upon the settlement of instant game inventory packs by selling retailers. Sales adjustments are recorded based upon final reconciliations prepared after the termination of a lottery instant game.
- Sales discounts are recorded for the sales value of tickets provided to retailers at no cost to be used for promotional purposes.

Commissions and Fees

Retailers receive a commission of 5% based on the total tickets sold and a commission of 1.25% of terminal validations. The online game contractor receives a fee equal to a contractual percentage of the revenue generated through the respective network maintained by the contractor. All other gaming contractors are paid fees based on the units of service provided.

State of New Jersey Cash Management Fund

Investments in the State of New Jersey Cash Management Fund are valued at cost, which approximates fair value.

Accounts Receivable

Accounts receivable is comprised primarily of amounts due from retailers. The allowance for uncollectible accounts is funded by a \$100 per year license renewal fee paid by the Division's retailers. Operating expense is charged with an allowance for estimated uncollectible accounts based on past experience and an analysis of current accounts receivable collectibility. Accounts deemed uncollectible are charged to the allowance in the year they are deemed uncollectible.

**STATE OF NEW JERSEY, DEPARTMENT OF THE TREASURY,
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NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equipment

The Division follows the state's threshold for capitalizing equipment as follows: machinery and equipment over \$20,000 and motor vehicles over \$30,000. Purchases that do not meet the threshold for capitalization are recognized as expenses in the statements of revenues, expenses, and changes in net assets in the period during which they are acquired and are included in administrative expenses. For the years ended June 30, 2007 and 2006, leasehold improvements included in other assets were \$279,930 and \$257,160, respectively. For the years ended June 30, 2007 and 2006, amortization expense was \$34,081 and \$26,854, respectively.

Installment Prize Awards and Prize Expenses

Installment prize awards are recorded based upon the present value of an annuity at terms to yield a series of future payments needed to meet the obligations of the Division of State Lottery for prize disbursements. The Division of State Lottery purchases annuity contracts from insurance companies and U.S. government securities to fund its liability for installment prize awards. An annuity contract represents an obligation by an insurance company to provide a fixed series of payments over a specified period. Annuity contracts are subject to credit risk. The Division of State Lottery seeks to control its exposure to such credit risk by purchasing annuity contracts only from insurance companies that meet certain minimum standards. Such standards include a minimum required claims payment rating from Standard and Poors Corporation, a private rating agency, of at least "AA." However, due to the long-term nature of these contracts, the credit quality of the issuer is subject to change. Amounts recorded as prize expense reflect the cost of annuity contracts and U.S. government securities necessary to satisfy stated prize awards plus any single payment awards.

Vacation and Sick Leave

The Division records vacation and sick time incurred during the period in "administrative expenses" in the accompanying statements of revenues, expenses, and changes in net assets. Payments for accumulated sick leave balances are made to retiring employees upon regular retirement. Such payment is based on 50% of the employee's sick leave accumulation at the pay rate in effect at the time of retirement, up to a maximum of \$15,000. Employees separating from service prior to retirement are not entitled to payments for accumulated sick leave.

Advertising

The Division of State Lottery uses advertising to promote the sale of lottery tickets. The costs of advertising are expensed as incurred.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**STATE OF NEW JERSEY, DEPARTMENT OF THE TREASURY,
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NOTES TO FINANCIAL STATEMENTS

B. CASH AND INVESTMENTS

The Division of State Lottery adopted GASB Statement No. 40, "Deposits and Investment Risk Disclosures," which requires uncollateralized deposits exposed to custodial credit risk to be disclosed. The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits that are in possession of an outside party. The following is a summary of the Division's cash deposits by financial institution and the amount exposed to custodial credit risk at June 30, 2007 and 2006. The Division's deposits with Wachovia are insured by the Federal Deposit Insurance Corporation up to \$100,000.

	Year Ended June 30.	
	2007	2006
Wachovia	\$ 293,442	\$ 3,228,501
New Jersey Cash Management Fund	154,969,265	145,453,450
Total	\$ 155,262,707	\$148,681,951

The New Jersey Cash Management Fund is a common trust fund administered by the State Department of the Treasury, Division of Investments. Securities in the fund are insured, registered or held by the Division of Investment or its agents in the Division's name. Since the New Jersey Cash Management Fund is a pooled investment and the cash balance is guaranteed by the State of New Jersey, the Commission's cash and investments are not subject to custodial credit risk under GASB Statement No. 40.

C. FUTURE INSTALLMENT PRIZE AWARDS

The Division purchases annuity, or deposit fund contracts, from insurance companies and U.S. government securities to fund its liability for future installment prize awards. Generally, annuity contracts fund instant product annuity prizes, and U.S. government securities fund annuity prizes for Pick 6 and Mega Millions. An annuity contract represents an obligation by an insurance company to provide a fixed series of payments over a specified period.

U.S. government securities are carried at fair value. At June 30, 2007 and 2006, the Division held U.S. government securities totaling \$37,519,143 and \$31,456,233, respectively.

Annuity contracts are carried at their current contract values, which are based upon their original purchase prices adjusted for credited interest and amounts already received. Annuity contracts are subject to credit risk. The Division seeks to control its exposure to such credit risk by purchasing annuity contracts only from insurance companies that meet certain minimum standards. Such standards include a minimum required claims payment rating from Standard and Poors Corporation, a private rating agency, of at least "AA." However, due to the long-term nature of these contracts, the credit quality of the issuer is subject to change. As of June 30, 2007, three companies with annuity contracts totaling approximately \$33,000,000 had a rating under "AA". At June 30, 2007 and 2006, the Division held insurance company annuity contracts totaling \$701,854,918 and \$767,375,097, respectively, issued through twelve insurance companies, which are due in installments ranging from ten years to the lifetime of the recipient. A significant portion

**STATE OF NEW JERSEY, DEPARTMENT OF THE TREASURY,
DIVISION OF STATE LOTTERY**

NOTES TO FINANCIAL STATEMENTS

C. FUTURE INSTALLMENT PRIZE AWARDS (CONTINUED)

(in excess of 5% of total) of the Division's investment in annuity contracts at such date is concentrated among the following six companies:

- Ohio National Life
- New York Life Insurance Co.
- Mutual of America
- Metropolitan Life
- Sun Life Assurance
- Protective Life

The estimated fair value of annuity contracts approximates the carrying value reflected in the accompanying statements of net assets at June 30, 2007 and 2006.

Concentrations of Credit Risk

“Concentration of Credit Risk” is the risk that relates to the amount of investment at any one entity. The disclosure requirement of this risk factor is limited to investments in excess of 5% of the total. Guaranteed annuity contracts, as stated above, are the only category subject to concentration of credit risk disclosure.

D. LITIGATION

The Division of State Lottery is a party to a number of lawsuits arising out of the conduct of its business. While the ultimate results of the lawsuits or other proceedings against the Division of State Lottery cannot be predicted with certainty, management of the Division of State Lottery does not expect that these matters will have a material adverse effect on the financial position or results of operations of the Division of State Lottery.

E. COMMITMENTS

Contractual Arrangements

The Division of State Lottery maintains a gaming network of over 6,100 online locations where all games are sold. GTECH Corporation is responsible for operating the online games and providing courier services under a contract expiring December 20, 2007. The Division is currently in the process of seeking proposals for a new contract.

Operating Leases

The Division of State Lottery leases certain office facilities under non-cancelable operating lease agreements expiring through fiscal year 2013.

Future minimum lease payments are as follows:

<u>Year Ending June 30.</u>	<u>Amount</u>
2008	\$ 638,550
2009	638,550
2010	638,550
2011	638,550
2012	638,550
2013	<u>638,550</u>
	<u>\$ 3,831,300</u>

Rent expense for office facilities at June 30, 2007 and 2006, was \$1,183,496 and \$1,041,127, respectively.

SUPPLEMENTARY INFORMATION

**STATE OF NEW JERSEY, DEPARTMENT OF THE TREASURY,
DIVISION OF STATE LOTTERY**

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - BUDGET
AND ACTUAL
Year ended June 30, 2007

	<u>Budget</u> <u>(unaudited)</u>	<u>Actual</u>	<u>Variance</u> <u>(unfavorable)</u> <u>favorable</u>
Operating revenues			
Ticket Sales			
Pick 3	\$ 456,110,000	\$ 448,807,318	\$ (7,302,682)
Pick 4	258,093,000	256,009,771	(2,083,229)
Jersey Cash 5	125,580,000	119,265,344	(6,314,656)
Pick 6 Lotto	104,000,000	87,448,520	(16,551,480)
Mega Millions	301,600,000	236,629,538	(64,970,462)
Raffle sales	-	10,000,000	10,000,000
Instant games	1,131,500,000	1,193,119,013	61,619,013
Sales discounts	<u>(2,000,000)</u>	<u>(387,672)</u>	<u>1,612,328</u>
Total ticket sales	2,374,883,000	2,350,891,832	(23,991,168)
Other income			
Forfeited prizes	30,354,000	40,416,837	10,062,837
Miscellaneous	<u>1,200,000</u>	<u>1,026,409</u>	<u>(173,591)</u>
Total operating revenues	<u>2,406,437,000</u>	<u>2,392,335,078</u>	<u>(14,101,922)</u>
Operating expenses			
Prize expenses	1,354,297,500	1,359,400,245	5,102,745
Amortization expense	25,044	34,081	9,037
Bad debt expense	-	600,000	600,000
Administration expenses	28,500,000	28,427,879	(72,121)
Retailer commissions	130,728,565	131,242,482	513,917
Online vendor fees	27,431,998	27,992,821	560,823
Instant vendor fees	15,954,150	16,690,120	735,970
Multi-state fees	50,000	14,939	(35,061)
Online network fees	7,728,920	6,917,906	(811,014)
Drawing broadcast fees	<u>1,140,000</u>	<u>1,141,548</u>	<u>1,548</u>
Total operating expenses	<u>1,565,856,177</u>	<u>1,572,462,021</u>	<u>6,605,844</u>
Operating income	840,580,823	819,873,057	(20,707,766)
Non-operating revenue			
Interest	<u>2,400,000</u>	<u>6,177,216</u>	<u>3,777,216</u>
Income before transfers out	842,980,823	826,050,273	(16,930,550)
Contributions for state aid to education and state institutions	<u>842,000,000</u>	<u>828,326,155</u>	<u>13,673,845</u>
Change in net assets	980,823	(2,275,882)	(3,256,705)
Net assets, beginning of year	<u>12,702,271</u>	<u>12,702,271</u>	<u>-</u>
Net assets, end of year	<u>\$ 13,683,094</u>	<u>\$ 10,426,389</u>	<u>\$ (3,256,705)</u>

**STATE OF NEW JERSEY, DEPARTMENT OF THE TREASURY,
DIVISION OF STATE LOTTERY**

SCHEDULES OF INSTANT GAME REVENUES

	Year ended June 30,	
	2007	2006
CROSSWORD (AG)	\$ 43,191,969	\$ -
CROSSWORD (AH)	42,958,089	-
CROSSWORD (AI)	42,709,407	-
CROSSWORD (AF)	42,134,799	11,400
CROSSWORD (AJ)	36,940,296	-
BIG MONEY SPECTACULAR (O)	24,241,558	-
BIG MONEY SPECTACULAR (N) GREEN	23,387,652	66,600
BIG MONEY SPECTACULAR (P)	23,385,140	-
BIG MONEY SPECTACULAR (Q)	23,227,348	-
SUPER CROSSWORD (F)	21,792,525	-
POKER NIGHT	21,418,500	-
SUPER CROSSWORD (G)	20,768,915	-
INSTANT BINGO (D) TEAL BLUE	20,333,674	1,474,200
SUPER CROSSWORD (D) PURPLE	20,245,520	2,937,000
INSTANT BINGO (E)	20,022,070	-
CHAMPIONSHIP POKER (B)	19,968,765	-
SUPER CROSSWORD (E)	19,936,695	-
GOLDEN TICKET	19,409,555	-
PLAYERS CLUB RICHES	19,109,330	532,800
CHAMPIONSHIP POKER 2ND EDITION	18,954,200	-
LUCKY MILLIONS	18,638,440	-
GOLD RUSH	18,183,780	-
BIG MONEY SPECTACULAR (R)	18,150,786	-
LUCKY LINES	16,657,023	1,631,940
WIN FOR LIFE (AE)	16,238,850	509,400
WIN FOR LIFE (AG)	15,394,674	-
\$150,000 BINGO BONANZA	14,926,645	-
LUNAR BINGO	14,221,176	-
SUPER RED MILLIONS	12,719,090	5,175,700
STOCKING STUFFER (B)	12,384,125	-
SUPER DUPER DOUBLER	12,151,657	-
SIZZLING 7'S	11,974,204	-
HOLIDAY LUCKY TIMES 10	11,897,406	-
PINBALL WIZARD (B)	11,842,776	-
RED HOT TRIPLER	11,818,418	335,100

**STATE OF NEW JERSEY, DEPARTMENT OF THE TREASURY,
DIVISION OF STATE LOTTERY**

SCHEDULES OF INSTANT GAME REVENUES (CONTINUED)

	Year ended June 30,	
	2007	2006
CASHINO	11,814,405	-
DOUBLING RED BINGO	11,710,710	5,091,024
FANTASTIC 5'S	11,163,450	-
NEW YEAR COUNTDOWN	10,894,860	-
DOUBLING GREEN BINGO	10,476,327	-
MILLION DOLLAR DOUBLER	10,404,850	-
MONOPOLY (2006)	9,978,338	-
CROSSWORD (AE) RED	9,797,934	32,837,907
DOMINOES (B)	9,770,904	-
SUDOKU	9,565,335	-
SILVER 7'S	9,457,562	-
BIRTHDAY WISHES (B)	9,307,916	1,008,156
COSMIC BINGO	9,095,541	7,817,643
DEAL OR NO DEAL	9,054,526	-
LUCKY SHAMROCKS	8,923,244	-
JACK FROST	8,903,966	-
FLOWERING 50'S	8,797,386	-
MAJOR LEAGUE BASEBALL WINNINGS	8,540,435	-
PIRATE'S GOLD	8,384,010	-
TIC TAC WILD	8,318,742	-
DOUBLE WILD CHERRIES	8,165,031	-
CARIBBEAN CRUISE POKER	7,800,256	-
DOUBLE YOUR LUCK D	7,749,174	4,676,013
HOT TAMALES	6,872,618	-
SUPER TIC TAC TOE (B)	6,840,669	10,358,088
LAUREL & HARDY	6,693,554	-
CONGRATULATIONS (C) ORANGE	6,548,714	-
SIZZLING SMACKERS	6,413,288	-
KITTY CASH/DOGGY DOUGH	6,405,788	-
LUCKY TIMES 20	6,391,750	13,829,225
LIFETIME RICHES	6,362,200	26,892,250
LUCKY DICE MULTIPLIER	6,352,263	6,268,101
SUPER CROSSWORD (H)	6,250,500	-
LIBERTY BILLS	5,912,192	1,949,556
CODE QUEST	5,841,129	-

**STATE OF NEW JERSEY, DEPARTMENT OF THE TREASURY,
DIVISION OF STATE LOTTERY**

SCHEDULES OF INSTANT GAME REVENUES (CONTINUED)

	Year ended June 30,	
	2007	2006
CASH BONANZA	5,762,080	14,071,070
LUCKY SIGNS	5,742,016	-
MUSTANG MONEY	5,648,172	-
FOOTBALL FEVER	5,603,052	-
THRILLS, CHILLS & BILLS	5,465,630	-
CARNIVAL CASH	5,363,735	9,765,285
WILD TIME GOLD	5,297,162	-
PRICE IS RIGHT	5,165,740	1,069,200
MAX-A-MILLION	5,020,350	13,489,250
FIELD & STREAM	4,900,388	-
SUPER DUPER DOUBLER (B)	4,864,788	-
SHORE EXCITEMENT	4,675,286	1,552,408
BONUS MILLIONS	4,443,840	14,165,870
MOTHER'S DAY WISHES	4,395,603	-
ZODIAC	4,383,030	4,758,510
ROULETTE DOUBLER	4,148,200	6,050,312
TREASURE HUNT	4,077,412	2,844,782
BIG MONEY SPECTACULAR (M) YELLOW	4,022,934	19,745,094
MATRIMONEY (B)	4,014,606	2,001,232
SPADE INVADERS	3,924,404	-
SLINGO	3,526,902	-
THE DUKE	3,147,964	-
CASH CATCHER	2,884,910	4,171,270
CONGRATULATIONS (B)	2,722,052	9,670,080
GO FOR THE GREEN	2,501,036	2,739,522
STRIKE IT RICH	2,413,034	7,288,946
FATHER'S DAY	2,409,223	-
FLOWERING 50'S	2,353,574	8,617,660
TREASURE CODE	2,258,748	8,884,197
BIG SMOOCH	2,224,220	7,809,476
FATHER'S DAY	2,160,432	3,229,328
PINK PANTHER	2,076,272	6,664,358
WIN FOR LIFE (AE) ORANGE	1,975,554	14,723,247
WIN FOR LIFE (AH)	1,923,243	-
4 LEAF LUCK	1,831,012	9,165,518

**STATE OF NEW JERSEY, DEPARTMENT OF THE TREASURY,
DIVISION OF STATE LOTTERY**

SCHEDULES OF INSTANT GAME REVENUES (CONTINUED)

	Year ended June 30,	
	2007	2006
ADVENTURES OF A LIFETIME	1,756,808	-
INSTANT BINGO (C)	1,752,030	9,028,360
ROULETTE MULTIPLIER	1,744,308	10,969,026
SUPER CROSSWORD (C)	1,483,100	20,516,435
GOLDEN 7'S	1,401,730	10,720,888
COOL HAND LOOT	1,393,296	8,789,998
SLOTS OF CASH	1,342,066	7,506,707
SUPER 7'S BINGO	1,254,900	-
STAR SPANGLED DOUBLER	1,168,500	-
MOTHER'S DAY RICHES	1,122,049	4,544,868
CROSSWORD (AK)	990,300	-
WHEEL OF FORTUNE (2005)	964,408	9,880,050
ICASH	814,056	5,177,928
HIGH STAKES POKER	731,700	-
AUTUMN DOLLARS	627,884	8,658,594
CROSSWORD (AD) LIME GREEN	407,796	41,257,743
SPICY HOT CASH	393,654	10,963,536
RUN THE TABLE	393,140	16,268,560
OFF ROAD DOUGH	375,072	5,462,638
DOMINOES	313,218	13,647,246
BIRTHDAY WISHES	310,228	11,032,428
RAISE THE STAKES	299,660	19,781,620
POOL PARTY CASH	254,776	6,086,820
BREEDERS' CUP GOLD	253,800	-
WILD 7'S CYBER SLINGO	253,565	653,830
HOLIDAY WISHES	233,181	7,019,757
COUNT CASHULA	203,235	5,453,766
BACK 9	199,680	6,099,129
INSTANT BINGO (B) RED	187,874	10,631,470
SINGLE, DOUBLE, TRIPLE PLAY BINGO	137,700	14,445,810
STOCKING STUFFER	119,390	11,494,809
BIG MONEY SPECTACULAR (L)	109,304	24,048,810
HOLIDAY LUCKY TIMES 10	81,850	12,187,362
SUPER CROSSWORD	45,545	20,584,940
LUCKY DOLLARS	44,246	11,977,227

**STATE OF NEW JERSEY, DEPARTMENT OF THE TREASURY,
DIVISION OF STATE LOTTERY**

SCHEDULES OF INSTANT GAME REVENUES (CONTINUED)

	Year ended June 30,	
	2007	2006
BETTY BOOP	40,930	9,903,770
ULTIMATE SPORTS GETAWAY	39,900	4,770,098
INSTANT BINGO	32,065	20,262,525
WILD CRAZY 8'S	28,672	10,688,120
CROSSWORD (AC) ORANGE	28,365	42,375,294
24K GOLD	28,028	10,627,164
DOUBLE YOUR LUCK (C)	28,000	12,687,895
ORANGE COUNTY CHOPPERS	27,531	3,110,514
FIRECRACKER CASH DOUBLER	18,910	8,778,360
KING SIZE CASH	17,820	7,386,630
MATRIMONEY	16,662	4,195,630
MILLION DOLLAR MANIA	14,400	14,654,590
WIN FOR LIFE (AD)	14,139	15,579,858
COSMIC BINGO	10,725	16,961,613
TEXAS HOLD'EM POKER	8,910	13,695,625
BIG MONEY SPECTACULAR K	8,100	23,882,932
INSTANT BINGO	7,292	11,158,206
RUBY RED 7'S	6,374	11,819,404
CROSSWORD (AB)	3,300	42,037,710
BIG MONEY SPECTACULAR F	1,800	7,200
CONGRATULATIONS	298	3,365,892
MAGIC LINE BINGO	237	8,707,752
CROSSWORD (Z)	-	29,288,646
BIG MONEY SPECTACULAR (J)	-	22,726,560
\$1,000,000 JACKPOT	-	2,862,420
WIN FOR LIFE AC	-	1,591,026
SUPER BLACKJACK DOUBLE PLAY	-	1,363,680
CROSSWORD (Y)	-	1,326,828
GOLDEN RICHES	-	1,279,449
HARVEST CASH	-	828,954
MOTHER'S DAY BONUS	-	801,967
ACES HIGH	-	783,502
PAC-MAN MANIA	-	481,324
LUCKY HEARTS	-	391,520
FOOTBALL FEVER	-	387,960

**STATE OF NEW JERSEY, DEPARTMENT OF THE TREASURY,
DIVISION OF STATE LOTTERY**

SCHEDULES OF INSTANT GAME REVENUES (CONTINUED)

	Year ended June 30,	
	2007	2006
SIZZLING HOT CASH	-	378,016
SPECTACULAR 7'S	-	233,730
DOUBLE YOUR LUCK	-	149,677
PROGRESSIVE POKER	-	137,490
CROSSWORD (X)	-	99,600
DOUBLE UP SLINGO	-	84,600
NJ ROAD TRIP	-	72,516
BREEDERS' CUP GOLD	-	71,000
BIG MONEY SPECTACULAR (H)	-	68,658
STOCKING STUFFER	-	44,905
POKER NIGHT	-	41,910
HOLIDAY LUCKY TIMES 10	-	36,822
SUPER SIZE CASH	-	29,430
JACKS OR BETTER D	-	27,395
BINGO EXTRA	-	24,687
QUICK SILVER	-	21,744
ROLL 6 POKER	-	19,668
WIN FOR LIFE AB	-	19,431
PINBALL WIZARD	-	13,150
WILD BILL	-	10,993
MULTI MONEY	-	8,850
BIG BANG BUCKS	-	6,396
CROSSWORD (W)	-	6,024
CROSSWORD V	-	6,009
BIG MONEY SPECTACULAR	-	5,386
ARCTIC CASH	-	4,500
HOLIDAY MAGIC	-	4,200
FISTFUL OF \$50's	-	3,360
10 TIMES LUCKY	-	3,000
CROSSWORD U	-	2,448
DEEP SEA DOUBLER	-	1,750
BIG MONEY SPECTACULAR	-	300
PINBALL PAYOFF	-	(135)
JOKER'S WILD	-	(234)
\$25,000 HEARTS	-	(300)

**STATE OF NEW JERSEY, DEPARTMENT OF THE TREASURY,
DIVISION OF STATE LOTTERY**

SCHEDULES OF INSTANT GAME REVENUES (CONTINUED)

	Year ended June 30,	
	2007	2006
DIAMOND DOLLAR BINGO	-	(300)
MARRY MONEY	-	(300)
MONEY MAKER DBL PLAY	-	(300)
MOTHERS DAY DOUBLER	-	(300)
PHARAOHS GOLD	-	(300)
SWEET WINNINGS	-	(300)
TAIL GATOR	-	(300)
WIN FOR LIFE A1	-	(300)
SLINGO	-	(516)
BURST CASH	-	(580)
DOUBLE DOUBLER	-	(592)
MORE LUCKY LINES	-	(597)
CASH CROP	-	(600)
FALL FEST	-	(600)
HUNT FOR CASH	-	(600)
LIVIN' LUCKY	-	(600)
LUCKY 8'S BINGO	-	(600)
SUPER DIAMOND	-	(600)
AMAZING ADVENTURE	-	(690)
MATRI-MONEY	-	(780)
AMAZIN 8	-	(836)
HOLIDAY LUCKY TIMES	-	(844)
CARIBBEAN CASH	-	(848)
PLATINUM BINGO	-	(879)
FATHER'S DAY DOUBLER	-	(900)
LUCKY 4 LEAF CASH	-	(900)
BIG CASH CASINO	-	(910)
VINTAGE BINGO	-	(1,178)
SPRING BREEZE	-	(1,200)
NHL	-	(1,228)
BIRTHDAY SURPRISE	-	(1,312)
THE HONEYMOONERS	-	(1,500)
BIG CASH DOUBLEPLAY	-	(1,800)
CAESARS PALACE	-	(2,425)
BIG MONEY SPECTACULAR (I)	(20)	2,752,460

**STATE OF NEW JERSEY, DEPARTMENT OF THE TREASURY,
DIVISION OF STATE LOTTERY**

SCHEDULES OF INSTANT GAME REVENUES (CONTINUED)

	Year ended June 30,	
	2007	2006
VINTAGE BINGO	(50)	334,292
WINNING LEGENDS	(102)	120,750
YOUNG & RESTLESS	(258)	506,780
FATHER'S DAY BONUS	(300)	2,619,046
HOLIDAY COUNTDOWN	(300)	735,987
DOUBLE DOUBLER	(300)	201,206
LIFETIME RICHES	(305)	181,365
CROSSWORD (AA)	(309)	42,314,637
CARIBBEAN STUD POKER	(324)	3,257,228
XTREME SIGHTS & SOUNDS	(344)	162,830
SHAMROCK TRIPLER	(400)	1,684,118
CYBER SLINGO	(400)	88,496
10 TIMES LUCKY (D)	(516)	5,532,310
HOLD'EM POKER	(530)	3,549,275
SPRING CASH	(576)	2,459,800
SNOW MAGIC	(594)	776,430
SUPER TIC TAC TOE	(600)	1,841,169
HOLLYWOOD STARS	(600)	708,302
VINTAGE BINGO	(602)	14,902,876
PROGRESSIVE BLACKJACK	(640)	3,185,790
HOT SLOTS	(645)	6,028,425
CYBER SLINGO 5 PACK	(749)	383,627
LUCKY STARS DOUBLE PLAY	(873)	5,101,890
LUCKY 7	(900)	5,734,445
DOUBLE YOUR LUCK	(900)	3,659,062
WHO'S ON FIRST	(1,204)	2,567,788
SUPER CROSSWORD	(1,505)	19,193,750
THE NUMBERS GAME	(1,664)	7,831,938
TETRIS	(4,776)	159,015
PRIOR YEAR GAME	(27,436)	(48,597)
	<u>\$ 1,193,119,013</u>	<u>\$ 1,141,676,642</u>

**STATE OF NEW JERSEY, DEPARTMENT OF THE TREASURY,
DIVISION OF STATE LOTTERY**

SCHEDULES OF ADMINISTRATIVE EXPENSES

	<u>Year ended June 30,</u>	
	<u>2007</u>	<u>2006</u>
Salaries	\$ 8,721,279	\$ 8,503,384
Printing and office supplies	309,761	273,302
Vehicular supplies	546	-
Household and clothing	5,564	3,565
Other supplies	136	422
Travel	207,552	217,830
Telephone	97,571	97,578
Postage	90,000	90,019
Data processing	368,797	301,810
Household and security	159,497	208,598
Professional services	286,114	426,136
Advertising	16,782,637	18,196,020
Maintenance - building and grounds	8,835	5,321
Maintenance - office equipment	21,385	19,449
Maintenance - vehicles	64	578
Rent - building and grounds	1,183,496	1,041,127
Rent - central motor pool	93,360	80,762
Rent - other	5,570	6,547
Vehicular equipment	25,994	84,931
Information processing equipment	13,959	626
Other equipment	<u>45,762</u>	<u>6,511</u>
Total administrative expenses	<u>\$28,427,879</u>	<u>\$29,564,516</u>

INDEPENDENT AUDITORS' 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*

State of New Jersey
Department of the Treasury
Division of State Lottery

We have audited the accompanying financial statements of the State of New Jersey, Department of the Treasury, Division of State Lottery (the "Division of State Lottery") as of and for the year ended June 30, 2007, and have issued our report thereon dated November 27, 2007. 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 Division of State Lottery's 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 the Division of State Lottery's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Division of State Lottery's internal control over financial reporting.

A control deficiency in an entity's internal control 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.

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.

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INDEPENDENT AUDITORS' 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* (CONTINUED)

Internal Control over Financial Reporting (Continued)

Our consideration of the 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 above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Division of State Lottery's 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 management, the New Jersey Department of the Treasury, and others within the Division of State Lottery and is not intended to be and should not be used by anyone other than these specified parties.

Amecador, P.C.
Certified Public Accountants

November 27, 2007