



2007 Annual Report



dream.

...millions of dollars in
scholarship and tuition
aid to graduating high
schoolers attending college
in New Jersey...



dream.

...over \$500 million
in support of
New Jersey's higher
education community...

Message from the Governor



Dear Friends,

In my work in government and in the private sector, I have always tried to measure my actions against one key maxim: true ‘profit’ comes in helping your community. Last year, the New Jersey Lottery marked another year which saw their annual business exceed the \$2 billion mark. But if you talk to the Lottery, they talk about what they believe to be their true ‘profit’ last year—the \$828.3 million that was generated in FY ‘07 to support State sponsored institutions and educational programs.

From school - age children to elderly veterans, and for a multitude of persons in between, the New Jersey Lottery has provided aid and support to programs and institutions of vital importance. It is a calling that they have answered for more than three and one-half decades, and it has meant the difference for countless families in municipalities across New Jersey.

Lottery dollars are unique in that they are able to touch families and individuals throughout their lives, from their first tentative steps into school to their golden years as a respected veteran within New Jersey’s military community. Whether it is a lunch through our School Nutrition Program, a scholarship or tuition aid to any one of New Jersey’s colleges and universities, or care for a loved one at one of our State’s Veterans’ Homes or Centers for the Developmentally Disabled, Lottery proceeds make it possible, thereby enriching and

enhancing the lives of all members of our community.

All of these good works are made possible by the dedication and tireless effort of the hardworking and creative leadership and staff of the New Jersey Lottery. Year in and year out, the Lottery’s personnel work diligently to provide for others, especially the many constituencies of the Lottery’s beneficiary community. It is a tradition rooted in the Lottery’s beginnings nearly four decades ago, and one which I believe will carry on for many decades to come.

Sincerely,

A handwritten signature in black ink, which appears to read 'Jon Corzine'.

Jon S. Corzine
Governor

Message from the Treasurer



Dear Friends,

“Imagination and efficient administration has given New Jersey the most successful State Lottery in the Nation.” I’d like to say that those were my own words, but they are actually excerpts from former Governor Brendan Byrne’s remarks during his fiscal year 1978 Budget Message. Though nearly thirty years have passed since those words were first spoken, they still ring true—and that is the reason I echo Governor Byrne’s sentiments today.

The professionalism, industry and initiative that the New Jersey Lottery has demonstrated the past year are indicative of the long-standing dedication to excellence that the Lottery has displayed in all facets of its operations since day one. Operating on approximately 1% of the revenues it takes in, the New Jersey Lottery has consistently been among the most efficient lotteries in the United States. The net result? Fiscal year 2007 marked another milestone in Lottery-generated revenues. This year’s revenues bring the total dollars raised to benefit education and institutions since the Lottery’s inception to over \$16.4 billion.

We have over 600,000 school lunches being served today thanks to the Lottery’s support, which makes up the bulk of the State’s contribution to the School Nutrition Program. Over 102 million people won nearly \$1.6 billion in cash and prizes in the past fiscal year—and because of that strong performance, thousands of young men and women were able

to attend a New Jersey college or university, and scores of New Jersey’s brave veterans were taken care of in our State’s three Veterans’ Homes. All of it made possible by the exceptional work of the New Jersey Lottery.

To accomplish feats such as these takes creativity, vision and a lot of hard work. I commend all the staff and leadership of the Lottery, as well as the many businesses that make up the Lottery’s retailer network. What was true then is equally true now—the New Jersey Lottery remains a constant source of pride for all of us.

Sincerely,

A handwritten signature in black ink, appearing to read "R. David Rousseau". The signature is fluid and cursive, with a long horizontal stroke at the end.

R. David Rousseau,
State Treasurer

Message From the Chairman



Dear Friends,

The New Jersey Lottery can take pride in yet another year of exemplary professionalism and stellar achievement. For the entirety of Fiscal Year 2007, Lottery leadership, my fellow Commission members, and the entire staff strove to improve upon the accomplishments of the prior year and met with great success.

My work takes me to the four corners of our State and, when I mention my work with the Lottery, I get an enthusiastic, supportive response. But lately, however, people have been mentioning something else, something that goes beyond our jackpots and our terrific prizes.

People are talking about the difference Lottery-generated revenue is making in their communities and in the lives of friends, relatives or colleagues. Last year, we were able to return over \$828.3 million in proceeds to the State of New Jersey, and the good that it was able to accomplish was incalculable in terms of dollars and cents.

Scholarships, a place to call home for a veteran, school lunches, support for all of New Jersey's colleges and universities...the list goes on and on, and its impact reverberates in the lives of New Jerseyans of all ages. We're making college a reality instead of just a dream; we're feeding a thirst for knowledge while making sure a

healthy school breakfast or lunch is there for thousands of K-12 students every day.

I am proud to be able to lead this exceptional organization, and prouder still that so many of my fellow citizens benefit each day from the hard work, dedication and integrity that are the hallmarks of the New Jersey Lottery.

Sincerely,

A handwritten signature in black ink that reads "Robert James D'Anton". The signature is written in a cursive style with a horizontal line through the middle.

Robert James D'Anton
Chairman

Message From The Executive Director



Dear Friends,

Every year, when I sit down to write this letter, I look back over the year and think about the many milestones the Lottery has accomplished. And, invariably, I also start to think about the people who have made a difference along the way—the retailers and lottery players I’ve met at events throughout the State, the Mega Millions jackpot winners whom we’ve ‘revealed’ to the media and the public, and countless people whose lives have been positively impacted by the benefit of Lottery-generated revenue.

But it’s that last group—our beneficiary community—that has made the most impact upon me this past year. They are an actual, physical manifestation of the good our proceeds help bring about. Every instant ticket, every live-drawing ticket translates into people served, into lives enriched.

At no time was that clearer than my visit near the end of this fiscal year to the Vineland Veterans’ Home. The Home is an incredible facility, taking care of hundreds of service men and women who have given so much on our behalf, and offering healthcare and quality-of-life resources to their residents that are truly exceptional. We were there to focus attention on the Lottery dollars that flow out to support our State’s trio of Veterans’ Homes. The day was unforgettable not because it was a success, but because of the dozens of people I was fortunate enough to meet and talk to about the Home. From the CEO of the facility to the residents, they were all grateful for the role the Vineland Home was able to play in their lives.

Days like that are why we do this. Yes, we love to see winners come forward and our players enjoying good fortune. But what makes what we do all the more meaningful is the knowledge that those same players are supporting something far more important, far more special than any jackpot. What our players, our retailers and our Lottery staff support are people— young students just starting out, collegians across the State, our veterans, and the Garden State’s developmentally disabled community, to name only a few. We raised over \$828.3 million last year in support of our State’s educational programs and institutions. More significantly, though, we touched the lives of countless individuals, families, and communities throughout our State—and that’s the kind of success we are most proud of.

Sincerely,

A handwritten signature in black ink that reads "William T. Jourdain". The signature is written in a cursive, slightly stylized font.

William T. Jourdain
Acting Executive Director

LEADERSHIP

INTEGRITY

COMMITMENT

DREAMS

LEADERSHIP

Commission Members



*Robert D'Anton,
Chairman*



*Clockwise from top left,
Robert Slater,
Vice Chairman
Dr. Munir Kazmir
Commissioner
James J. McGuire, Esq.
Commissioner
Trina L. Glass, Esq,
Commissioner
R. David Rousseau,
State Treasurer, Ex Officio*



DREAMS

Where the Money Goes

State of New Jersey Programs Supported by State Lottery Resources for the Fiscal Year Ended June 30, 2007

Department of Agriculture

School Nutrition Program	\$ 4,577
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Department of Education

Marie Katzenbach School for the Deaf	1,314
Non-Public School Aid	44,578
Statewide Assessment Program (Grades 4, 8, 11)	6,346
School Construction and Renovations	23,617
Total Department of Education	75,855

Higher Educational Services

Senior Public Institutions - Operating Aid	353,587
Tuition and Grants	88,853
Higher Education Capital Improvement Plan - Debt Service	6,527
Outstanding Scholar Recruitment Program	3,717
Aid to County Colleges for Operational Costs	58,432
Aid to Independent Colleges and Universities	8,027
Coordinated Garden State Scholarship Program	3,090
Higher Education Facilities Trust Fund - Debt Service	8,616
Higher Education for Special Needs Students	346
Student Tuition Assistance Reward Scholarships (NJSTARS)	3,124
Opportunity Program Grants	11,088
Supplementary Education Program Grants	5,309
Veterinary Medicine Education	288
Total Higher Educational Services	551,004

Department of Human Services

Operation of Centers for Developmentally Disabled	48,815
Operation of State Psychiatric Hospitals	120,605
Total Department of Human Services	169,420

Department of Military and Veterans' Affairs

Operation of Homes for Disabled Soldiers	27,470
Total Revenue Realized - GAAP Basis	\$ 828,326

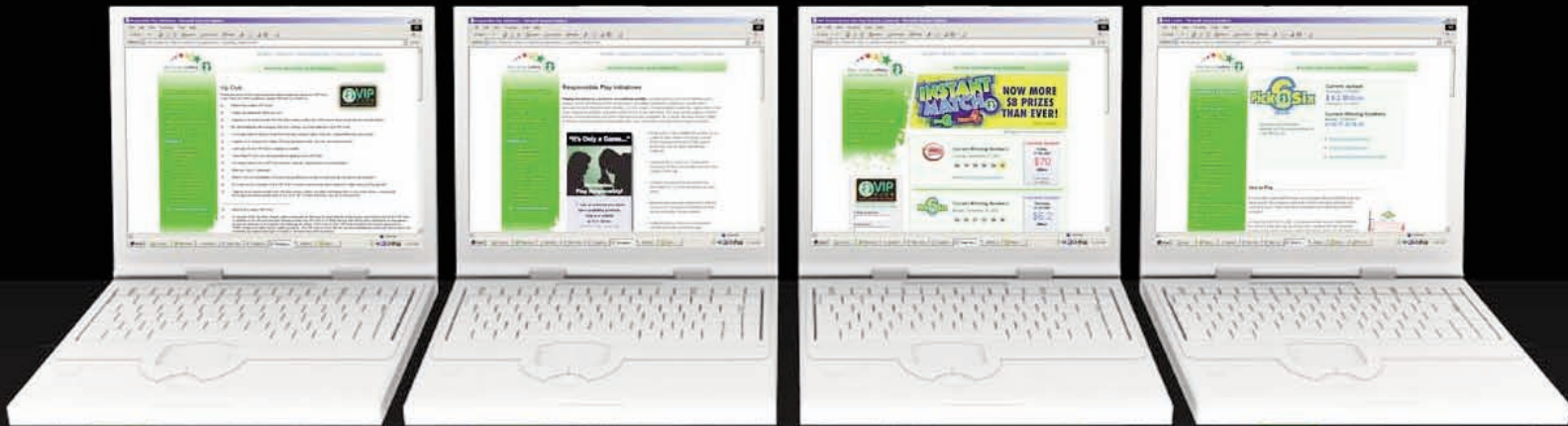
(a) The amount of State Lottery funding in the programs designated above may only represent a portion of its total State funding. Any balance of the appropriation for the program would be funded by the General Fund.

The Lottery is so much more than multi-million-dollar jackpots and making millionaires. It's about helping to feed a nutritious meal to a young student or providing scholarships to a high school student. It's about improving the quality of life for disabled veterans and developmentally disabled individuals, and making certain that those who wish to attend a New Jersey college or university can do.

As one of the most cost-efficient lotteries in the United States, the New Jersey Lottery spends approximately 1% of its revenues to operate its business. As the State's fourth largest revenue producer, the Lottery presented over \$2.4 billion in sales for fiscal year 2007, and was able to contribute more than \$828 million to the State to help fund education and institutions, making everyone in the Garden State a winner.

Since its inception nearly forty years ago, the Lottery has dedicated more than \$16.4 billion to programs that benefit millions of New Jersey residents. Community Colleges, the Department of Human Services, the Department of Military and Veterans Affairs, our School Nutrition Program, and the Marie Katzenbach School for the Deaf are just a few of the organizations and programs whose constituencies benefit from Lottery proceeds.

The New Jersey Lottery also plays a key role in supporting small businesses throughout the State. Over 6,100 businesses serve as Lottery retailers and act as a direct link between the Lottery and its players. Retailers earn five percent of their lottery ticket sales in the form of commissions. Last fiscal year, the Lottery returned over \$133.6 million in commissions to support chain stores, supermarkets, pharmacies, convenience stores and other establishments throughout the State.



The VIP Club

The Lottery's *VIP Club* has over 130,000 members - the most of any Lottery in the country. The *VIP Club* is free-of-charge, and its members enjoy such privileges as having the daily results e-mailed directly to them; the ability to participate in special drawings for tickets to concerts, sporting events and family entertainment; and a newsletter that details games and promotions that are on the horizon. Members sign up by logging onto the Lottery's website njlottery.net.

Responsible Play

As part of its continuing efforts to increase public awareness and understanding of playing responsibly, the Lottery has redesigned a brochure for distribution to the public that provides guidelines to use when playing the lottery and other gaming activities.

The brochure, entitled "*It's Only a Game,*" is distributed through the Lottery's 6,100 retailers throughout the state and at Lottery sponsored events. The free brochure encourages the public to call the 1-800-GAMBLER® hotline if they think they or someone they know may have

a gambling problem. The staff at the hotline can direct them to assistance. Additionally, the Lottery also reinforced its commitment to combating underage gambling by partnering with the Council on Compulsive Gambling to increase public awareness of the Lottery's "*Not 18 Yet? No Bet*" campaign, which conveys to Lottery retailers and the public the importance of not selling lottery tickets to minors.

The 1-800-GAMBLER® number is featured in the Lottery's product line and as a tagline in its print, radio and television advertising.

New and Improved Website

The Lottery's website, njlottery.net, receives an average of 40,000 visitors each day and close to 1.5 million visitors each month, making it the most visited site among all State agencies in New Jersey and one of the most popular state lottery websites in the country. In fiscal year 2007, enhancements continued to be made to the site, including layout revisions, the addition of new links, and animated panels for special promotions.



Kean University, The College of New Jersey, the New Jersey Institute of Technology, Mercer County Community College, Rutgers, The State University of New Jersey, Thomas Edison State College, the University of Medicine Dentistry of New Jersey and all of New Jersey's institutions of higher learning benefited in FY'07 thanks to players of New Jersey Lottery games.

Where the Money Goes

Higher Education

Senior Public Institutions – Operating Aid

Because of the proceeds produced from the sale of lottery tickets, New Jersey's senior public institutions received nearly \$353.6 million in fiscal year 2007 to help pay operating expenses that included payroll and contracted services. Kean University, The College of New Jersey, the New Jersey Institute of Technology, Mercer County Community College, Rutgers, The State University of New Jersey, Thomas Edison State College, the University of Medicine and Dentistry of New Jersey, and all of New Jersey's institutions of higher learning benefited in FY'07 thanks to players of New Jersey Lottery games.

Aid to Community Colleges for Operational Costs

Lottery-generated revenue provided over \$58.4 million in FY'07 toward the operation of all Community Colleges in New Jersey to help defray the costs of such expenses as payroll and contracted services. Colleges are awarded funding according to class size.

Aid to Independent Colleges and Universities

All of the independent colleges and universities in our State receive funding based on class size to help with costs that include payroll and contracted services. In fiscal year 2007, proceeds from the sale of lottery tickets contributed over \$8 million to support the operation of New Jersey's institutions of higher learning.

Student Assistance For Higher Education

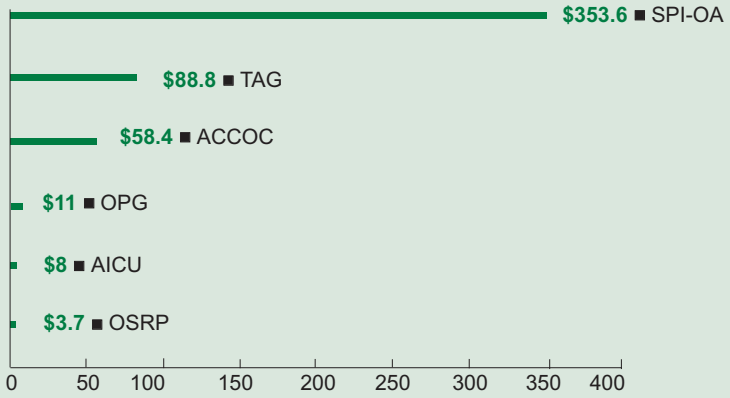
Opportunity Program Grants - These grants are made available to New Jersey higher education institutions to support Equal Opportunity Fund programs that assist students from educationally and economically disadvantaged backgrounds in their pursuit of a college education. In FY'07, Lottery-generated revenue provided over \$11 million to support Opportunity Program Grants.

Outstanding Scholar Recruitment Program - This program is designed to increase enrollment and the retention of our State's highest achieving secondary school graduates. Over \$3.7 million was contributed by the New Jersey Lottery in FY'07 to support this vital scholarship program.

Tuition Aid Grants - Tuition Aid Grants provide help in managing college costs for students enrolled in New Jersey colleges and universities who demonstrate a need for financial assistance. In FY'07, the New Jersey Lottery contributed over \$88.8 million to support this grant program and help students in our State recognize the dream of a college education.

Contributions Higher Education

\$ in millions



- SPI-OA** Senior Public Institutions - Operating Aid
- TAG** Tuition Aid Grants
- ACCOC** Aid to Community Colleges for Operational Costs
- OPG** Opportunity Program Grants
- AICU** Aid to Independent College and Universities
- OSRP** Outstanding Scholar Recruitment Program

COLLEGE





Proceeds from lottery ticket sales in fiscal year 2007 contributed nearly \$4.6 million to help supply - every day - over 642,000 school lunches and 145,000 school breakfasts for students across our State.

Where the Money Goes

K - 12 Education

School Nutrition Programs

Proceeds from lottery ticket sales in fiscal year 2007 contributed nearly \$4.6 million to help supply - every day - over 642,000 school lunches and 145,000 school breakfasts for students across our State. The School Breakfast and School Lunch Programs ensure that our school children have access to a healthy breakfast and lunch at school to promote learning readiness and healthy eating.

Marie Katzenbach School For The Deaf

From Lottery-generated revenue, the Katzenbach School received over \$1.3 million in FY'07 to support its mission to provide hearing impaired children with Early Intervention and Nursery School programs, and an education at the lower, middle, and high school levels.

Non-Public School Aid

In FY'07, almost \$44.6 million in revenue, generated from the sale of lottery tickets, was provided to school districts across our State as reimbursement expense on behalf of children attending non-public schools in New Jersey.

Statewide Assessment Program (Grades 4, 8, 11)

In FY'07, more than \$6.3 million was contributed by the New Jersey Lottery to support the Statewide Assessment Program. Through this program, information is collected about student academic achievement in order to improve instruction, increase student learning, and assess the current status of our schools.

School Construction and Renovations

The New Jersey Lottery provided over \$23.6 million in fiscal year 2007 to ensure that the children of our State are educated in safe, modern school facilities.

Department of Human Services

Operation of Centers for the Developmentally Disabled

Nearly \$48.9 million was contributed by the New Jersey Lottery in FY'07 to support the operation of our State's Developmental Centers, where individuals with severe developmental disabilities live as part of a community and receive round-the-clock care.

Operation of State Psychiatric Hospitals

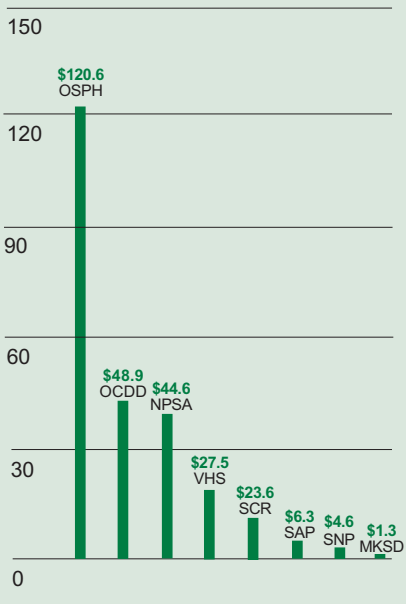
Over \$120.6 million was provided in fiscal year 2007 to support the operation of our State's five psychiatric hospitals that serve people with persistent and severe mental illnesses.

Department of Military and Veterans Affairs

Veterans Health Services

In FY'07, proceeds generated by the Lottery contributed nearly \$27.5 million toward the operation of New Jersey's three long-term care nursing homes for veterans. At each location, resident-veterans receive on-going medical and nursing care and rehabilitative services.

Where the Money Goes You are viewing an archived copy from the New Jersey State Library
 \$ in millions



OSPH Operation of State Psychiatric Hospitals

OCDD Operation of Centers for the Developmentally Disabled

NPSA Non-Public School Aid

VHS Veterans Health Services

SCR School Construction and Renovations

SAP Statewide Assessment Program

SNP School Nutrition Programs

MKSD Marie Katzenbach School For the Deaf





Games



Pick 3 and Pick 4

Pick 3 (originally dubbed Pick-It) was first introduced on May 22, 1975 and astonished Lottery officials with its instant success among players. The game was originally slated for a six-month trial period; but, in just five months, officials were astounded when the fledgling game recorded sales of nearly \$18 million. Thirty years later, the game has generated over \$12 billion in sales over those three decades, with \$448.8 million generated in this past fiscal year alone.

Two years later, with the foundation laid by the success of the Pick 3 game, Lottery officials introduced the Pick 4. The weekly Pick 4 game was designed to produce larger prizes with higher odds of winning in comparison to the daily Pick 3.

Although payouts have evolved over the years, the characteristics of the Pick 4 game remain the same. The game is still only \$.50 per bet, and the straight and combination features still remain. The Pick 4 has remained a steady favorite among players, amassing \$6.3 billion since its introduction. In fiscal year 2007, this cornerstone game earned over \$256 million in sales.

Jersey Cash 5

With more people winning higher jackpots throughout the year, Jersey Cash 5 is one of the most popular games the Lottery offers. Drawn

daily like our Pick 3 and Pick 4 games, Jersey Cash 5 costs \$1.00 per game and has resulted in 181 jackpot winners over the course of fiscal year 2007. The average top-prize in 2007 was approximately \$173,000 and 1,102,392 players won prizes totalling almost \$59 million. Sales for the game were in excess of \$119.2 million in fiscal year 2007, as well. These strong sales helped this remarkable game generate just under \$51.5 million in support of State educational programs and institutions.

Pick 6

Since its inception, Pick 6 Lotto has generated approximately \$7.5 billion in sales, paid out \$4.4 billion to winners and returned more than \$3.4 billion to state education and institutions.

Pick 6 Lotto, which made its first millionaire in 1981, turned out 7 millionaires in fiscal year 2007. With fiscal year 2007 sales totaling \$87.4 million, and returns to the State equaling nearly \$35 million, Pick 6 Lotto once again established itself as one of the Lottery's flagship games. As one of the first six-digit Lotto games in the industry, New Jersey's Pick 6 Lotto has continually produced a high level of return and evolved to maintain player interest. In the months and years ahead, while the essence of this singular game remains intact, expect to see new and exciting enhancements added on for the benefit of our playing public.





Instant Games

New Jersey's instant game product line continues to be one of the most popular—and productive—in the nation. For the third year in a row, sales from instant games topped the \$1 billion mark.

In fiscal year 2007, dozens of new instant games, ranging in prices from \$1 to \$10, were introduced. Among the most popular were *Space Invaders*®, and 'core' games such as *Crossword* and *Win For Life*. Instant tickets were responsible for contributing just over \$316.7 million to State education and institutions. Additionally, a record \$773.4 million was paid out in cash and prizes to our many instant ticket winners.

Second chance drawings on games like *Mustang Money*, *Major League Baseball*® *Winnings* and *Kitty Cash/Doggy Dough* offered players the opportunity to win some unique prizes and trips in our Lottery Bonus Zone® "Second Chance" Drawings, and the success of these Drawings continues to be seen, even in the present day.

Mega Millions

Fiscal year 2007 was a noteworthy year for the New Jersey Lottery's Mega Millions game. During fiscal year 2007, fortunate New Jersey players of this exciting multi-state game won more than \$115.4 million. In September of 2006, a New Jersey resident

was the sole winner of a Mega Millions jackpot of \$15 million. In March of 2007, a Cape May, New Jersey couple was one of two winners in the nation of the largest jackpot in United States lottery history—a whopping \$390 million.

Sales from Mega Millions were quite strong, reaching \$236,629,538 in New Jersey during fiscal year 2007. During this time, there were five jackpots that exceeded \$100 million, with one jackpot that even exceeded the \$300 million mark.

Million Dollar New Year

Fiscal Year 2007 saw the debut of a unique Lottery game which captured the imaginations of players throughout the State. The launch of the Lottery's "Million Dollar New Year" raffle game saw players scooping up \$20 tickets to win one of four \$1,000,000 prizes.

In addition to making four new millionaires, "Million Dollar New Year" had prize tiers of \$100,000, \$25,000 and \$500. There were a total of 519 winning numbers drawn, giving players not only their best odds ever to win a million dollars, but a 1 in 963 chance of winning \$500 or more. This outstanding new entry into the Lottery's cadre of games sold out a week in advance of its December 31st drawing date and generated—by itself—over \$2.3 million in support of education and institutions.



OUR AUDIT



was performed for the purpose of forming an opinion on the basic financial statements taken as a whole.



INDEPENDENT AUDITORS' REPORT

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.

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.

MERCADIEN, P.C., CPAs

November 27, 2007

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal Years 2007 and 2006

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.

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.

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

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.

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal Years 2007 and 2006

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.

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 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
Administrative expenses	28	30
Retailer commissions	131	134
Vendor fees	45	48
Network 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.

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 institution. 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:

Below are the statements of cash flows, which are summarized (in millions) as follows:

	Year Ended June 30,	
	2007	2006
Cash flows from 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	\$ (3)	\$ 3

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.

STATEMENTS OF NET ASSETS

June 30, 2007 and 2006

Fiscal Year

	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

See accompanying notes to financial statements

COMPARATIVE STATEMENTS

Statements of Revenues, Expenses and Changes in Net Assets

Fiscal Year

	2007	2006
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	(387,672)	(587,835)
Total ticket sales	2,350,891,832	2,405,916,829
Other revenues		
Forfeited prizes	40,416,837	34,737,378
Miscellaneous	1,026,409	852,043
Total operating revenues	2,392,335,078	2,441,506,250
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	1,141,548	1,141,548
Total operating expenses	1,572,462,021	1,602,751,233
Operating Income	819,873,057	838,755,017
Non-operating revenue		
Interest	6,177,216	4,633,134
Income before transfers out	826,050,273	843,388,151
Transfers out- contributions for state aid to education and state institutions	828,326,155	844,155,935
Change in net assets	(2,275,882)	(767,784)
Net assets, beginning of year	12,702,271	13,470,055
Net assets, end of year	\$ 10,426,389	\$ 12,702,271

See accompanying notes to financial statements

STATEMENTS OF CASH FLOWS

For Fiscal Years Ended June 30, 2007 and 2006

	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 investing 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

See accompanying notes to financial statements

NEW JERSEY STATE LOTTERY COMMISSION

Notes to Financial Statements June 30, 2007 and 2006

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.

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.

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.

NEW JERSEY STATE LOTTERY COMMISSION

Notes to Financial Statements June 30, 2006 and 2005

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 Assets	\$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 all 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 (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 anyone 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:

Year Ending June 30	Amount
2008	\$ 638,550
2009	\$ 638,550
2010	\$ 638,550
2011	\$ 638,550
2012	\$ 638,550
2013	\$ 638,550
	\$3,831,300

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

Notes

New Jersey Lottery



NEW JERSEY LOTTERY

Jon S. Corzine,
Governor

R. David Rousseau,
State Treasurer

Robert J. D'Anton,
Chairman

William T. Jourdain,
Acting Executive Director

New Jersey Lottery
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Lawrenceville, New Jersey 08648

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