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ANNUALREPORT

ILLINOIS LOTTERY 2006 ANNUAL REPORT

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Dear Friends,

At the Illinois Lottery, we work hard to make sure our players get to truly experience our motto: "Have a Ball." Through exciting new games, promotions, events, advertisements and prizes, millions of Lottery players from across the state enjoyed another year of fun and huge winnings.

Fiscal year 2006 turned into a year of records and firsts for the state. With sales of \$1.99 billion and profits of \$671 million, the Lottery once again broke previous years' records and showed tremendous growth. In fact, since 2003, the Lottery has seen its revenue increase by \$403 million and its profits increase by \$130 million.

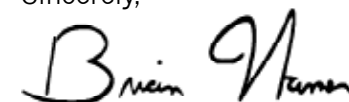
FY06 also marked the year that Illinois became the first state to create a specialty ticket that earmarks 100 percent of proceeds to benefit breast cancer research, services and programs. "Ticket for the Cure" was launched statewide and helped raise almost \$3 million to support this important cause. "Veteran's Cash," another specialty ticket whose proceeds support veterans' programs in Illinois, was also launched in FY06. These two tickets played a key role in the Lottery's efforts to attract a broader player base leading to increased sales.

Other financial highlights included significant increases in instant ticket sales. Fifty-nine new tickets were launched in FY06, with revenue from these popular games increasing to nearly \$1 billion and accounting for over 50 percent of the Lottery's gross sales. A series of \$20 instant tickets, another first for Illinois, was a major reason behind this big upswing as retailers saw many of these tickets sell out in a matter of days.

During the time that this annual report was being prepared, the entire state and our agency faced a great loss when Illinois Lottery Superintendent Carolyn Adams passed away after an extended battle with breast cancer. Superintendent Adams was not only the chief architect and driver behind much of the Lottery's record growth since her appointment in 2003, she was also a dear friend and colleague who won the respect and admiration of all those who came in contact with her. Her legacy will live on and we will continue to honor her in future years through the renamed "Carolyn Adams Ticket for the Cure Grant Fund." Gifts from the fund support others in Illinois who continue to fight breast cancer as courageously as she did.

In FY07, the Lottery has another round of innovative, games and surprises in store to help us continue to grow and "Have a Ball." On behalf of our entire agency and staff, we thank you for your continued support and look forward to having another successful year as we build on our core mission of supporting K-12 public education in Illinois.

Sincerely,



Brian Hamer
Director, Illinois Department of Revenue

INSTANT TICKETS



FOR THE PAST
3
YEARS, LOTTERY
HAS SET ANNUAL
SALES RECORDS.

**THE \$2 TICKET HAS A TOP
PRIZE OF \$20,000 AND IS
EXPECTED TO GENERATE
MORE THAN \$3 MILLION IN
NET REVENUE EACH YEAR.**



For the past three years, Lottery has set annual sales records. Instant tickets have once again proven to be a major driving force behind that growth. With 59 new ticket launches, instant ticket sales reached a new record of \$1 billion and accounted for more than half of FY06's total sales.

Lottery continually introduces new instant games to meet the desires of players, making instants the 'star' of the Illinois Lottery product line. In FY06 the most popular instant tickets were the \$20 games and those introduced during the summer second-chance promotion, "Set for Life."

Instant millionaires

Instant tickets, including the "\$72 Million Cash Blast," the "\$2 Million Extravaganza," the "\$50 Million Spectacular," and "Merry Millionaire," allowed the Lottery to create several new millionaires. For example, 30-year Lottery player and Oak Lawn resident Gerard Marquardt won \$2 million from one of the Illinois Lottery's newest \$20 instant tickets, "\$72 Million Cash Blast." And after taking some friendly holiday advice from a retailer, Susan Kusch of Brookfield won \$1 million after purchasing a "Merry Millionaire" instant ticket for \$5.

Overall, instant tickets were a great source of fun and winnings for players. In FY06 the Lottery awarded more than \$650 million total cash prizes.

Instants make history

FY06 was not only a record-breaking year in sales for instants, but also a year for making history. The "Ticket for the Cure" was the first ticket in U.S. Lottery history to earmark 100 percent of proceeds to

support the fight against breast cancer, including research, education and services for breast cancer patients and their families. The \$2 ticket has a top prize of \$20,000 and is expected to generate more than \$3 million in net revenue each year.

The Illinois Lottery also launched a new game entitled "Veteran's Cash." All of the proceeds from "Veteran's Cash" support the Department of Veteran's Affairs to fund additional services related to post traumatic stress disorder, homelessness, health insurance costs and disability benefits. Like the "Ticket for the Cure," this is a \$2 ticket with a top prize of \$20,000 that is expected to generate more than \$3 million in net revenue each year.

Both specialty tickets introduced represent the first time the Lottery specifically directed proceeds for causes other than education. These tickets support other vital services in Illinois and have allowed the Lottery to increase its player base and have a record-breaking year in sales.



MEGA MILLIONS
STOLE THE SHOW,
POSTING A
27
PERCENT GAIN

“
**...THE COFFEE
SHOP CARTEL
WON A \$7 MILLION
LOTTO DRAWING
AFTER 20 YEARS OF
PERSISTENCE.”**

If instant tickets are the flash of the Illinois Lottery, online games are its backbone. The Lottery's mainstay product line generated \$990 million in revenue in FY06, a 6 percent increase over 2005. The continued strength of Pick 3, the highest-earning online game, and Mega Millions drove the recent revenue gains.

Pick 3 remained a heavyweight in FY06 and accounted for 16 percent of the year's total revenue, with \$309 million in sales. Pick 4 was another strong earner: revenues for the game reached \$170 million in FY06. But Mega Millions stole the show, posting a 27 percent gain to achieve sales of \$243 million.

Together, Lotto and Little Lotto represent approximately 13 percent of FY06 revenue, but both experienced small drops in sales. Lotto revenues decreased by 5 percent to \$125 million and Little Lotto declined 4 percent to \$126 million. The introduction of Pick 'n Play in March 2006 offset the combined decrease of \$11 million by earning an almost identical amount in just over three months on the market.

A new way to play

Pick 'n Play was launched in Illinois in FY06. Designed to combine the best of online and instant games, the players choose their game and play card in-store, and the card is scanned at the Lottery

counter for activation. Players can either match their game piece to the randomly generated numbers, words or symbols (depending on the play card) or swipe it through a retailer "Check A Ticket" scanner to learn if it's a winner.

Coffee Shop Cartel wins big

One of the largest stories of FY06 centered on the size of a particular winners' group instead of a huge jackpot. In February 2006, a players' group called the Coffee Shop Cartel won a \$7 million Lotto drawing after 20 years of persistence. The 55-member group, led by Dietrich, III. resident John Waldhoff, met at the town's Wagon Wheel Café. At the beginning of each year,

anyone who wanted to participate gave Waldhoff \$100 to purchase Lotto tickets. Waldhoff maintained a savings account dedicated to the Lotto money and kept records of his transactions dating back 16 years.

Each member of the Cartel owned one share of the Lotto winnings, with the exception of Waldhoff, who received a second share for maintaining the account and purchasing the tickets. After taxes, the total prize was valued at \$4 million, and each member received approximately \$71,000, Waldhoff received \$142,000. It pays to play!

PROMOTIONS AND SPECIAL EVENTS

The Illinois Lottery had a ball with both Illinois professional baseball teams in FY06! We kicked-off the year by celebrating the White Sox World Series win and closed out the year at Wrigley Field for the “Set for Life” finale.

On Oct. 28, 2005, Lotto ball ambassadors were scheduled to pass out Halloween candy in Chicago’s Loop, but the event took an unexpected and fun turn when the city announced that the White Sox ticker tape

total available prizes. Lottery players sent in more than 580,000 entries consisting of \$30 worth of non-winning Pick n’ Play and instant tickets to qualify for the promotion. Over the course of 16 weeks, the Lottery drew a new finalist to participate in the grand finale event at Wrigley Field. Each contestant had the chance to win the cash equivalents of a new-leased car or a fabulous vacation for a lifetime. But only one would walk away with the grand prize: \$100,000 per year for life!

“OH MY GOD, OH MY GOD! I DON’T BELIEVE IT!”

parade would also occur on the same day. Rather than abandon the plan, the Lotto ball ambassadors joined in the fun, passing out candy to joyous Sox fans.

Lottery closed the circle at the end of FY06 when Wrigley Field and the Chicago Cubs hosted the “Set for Life” finale. “Set for Life,” the Lottery’s largest ever second-chance promotion, featured \$200 million in

By the time they reached the finale, the 16 winners’ excitement had reached a fever pitch. Just before the first inning, they gathered on the landmark baseball field with “Set for Life” agents – a treat in itself for the long-time Cubs’ fans in the group. Enormous baseball cards waited for them on the warning track, and each finalist lined up in front of their card. On cue, the

CHRISTY DAVIS
YORKVILLE

“Oh my God, oh my God,
oh my God! I don’t believe
it,” said Davis the moment
she found out she won
\$100,000 every year for
the rest of her life.



finalists peeled off the covering of the ticket and 10 players won the cash equivalent of a luxury vacation every year for life. The remaining six finalists saw a pot of gold on their tickets, indicating they remained in the running for the grand prize.

By that point, both Cubs’ fans and the remaining “Set for Life” finalists were on the edge of their seats. Not only would one winner walk away with \$100,000 every year for the rest of his or her life, but 1,000 fans were about to receive the opportunity to change their lives in an instant. As fans entered Wrigley Field, 16,000 baseball cards were passed out that corresponded to one of the “Set for Life” finalists. Each Cubs fan holding the grand prize winner’s

baseball card was about to win a chance to become a millionaire with a free “\$250 Million – Millionaires Club” instant ticket.

The “Set for Life” agents had another twist up their sleeves. Each agent carried an attaché case that the players had randomly picked that morning. In “Deal or no Deal” fashion, players had the opportunity to keep their previously picked case or take a new one on the field. Each of the six finalists knew that only one case held the key to the grand prize. After making their decision and receiving a second cue from Lottery Marketing Director Sarah Cummins, the agents opened the attaché cases for each of the six finalists. The winner, Christy Davis of Yorkville, was understandably thrilled!

PROMOTIONS AND SPECIAL EVENTS

Lottery keeps the heat on

To further engage players, Lottery hired an experiential marketing firm to help educate players about the different products and promotions at various lifestyle events across the state. From the Illinois State Fair to the Taste of Chicago, Lottery Brand Ambassadors were out in full force passing out lucky lip balm, Frisbees and offering free tickets to players. The ambassadors also marched across the city, showing up in the Bud Billiken Parade and working a booth at VIVA! Chicago. In all, the Lottery played a part in about a dozen summer events.

Players win trips of a lifetime

Two special second-chance drawings gave players an opportunity to take a trip of a lifetime. Through the Universal Orlando Promotion, the four players won trips for

two to the Universal Orlando Resort and \$1,000 in cash. Winners of the Billboard Latin Music Awards promotion traveled to the event in Miami.

Jingles spread holiday cheer

Lottery refreshed its popular holiday theme, “Give the gift you hope they’ll return for a million,” by adding a new dimension in FY06 – Lottery-themed jingles. To promote its holiday suite of tickets, several traditional holiday melodies were reinvented - Lottery style. Prepared with gift-giving advice for holiday shoppers, Lotto ball carolers took road trips throughout the state to entertain shoppers and spread holiday cheer. Even Larry, the Bad Gift Expert, who Lottery introduced in 2004 got in the fun – leading a group of caroling Lotto balls on State Street.

Lottery, Lottery

(sung to Jingle Bells tune)

Pushing through the crowd,
Out for the perfect gift,
Only the best allowed,
To give that holiday lift;
Listen to what I say,
Most gifts look the same,
What fun it is to buy and play
An Illinois Lottery game.

Lottery, Lottery

Just one buck to play!
O what fun it is to dream
And think of that pay day.

Lottery, Lottery

Just one buck to play!
O what fun it is to dream
And think of that pay day.

A year or two ago,
Larry warned about bad gifts,
Now I’m in the know,
This year no more tiffs;
I just bought Quick Picks,
A ticket for everyone,
Including grumpy Uncle Rick,
Now all my shopping’s done.

Lottery, Lottery

Just one buck to play!
O what fun it is to dream
And think of that pay day.

Lottery, Lottery

Just one buck to play!
O what fun it is to dream
And think of that pay day.



A holiday gift guide helped players find the perfect Lottery gift for their loved ones, complete with tips for the thrill seeker, artist, executive, organizer, sports enthusiast and even mom.

PROMOTIONS AND SPECIAL EVENTS

Players take their pick

Although game play is simple, the Lottery ensured that its players would understand and sample the new game through a state-wide promotional tour. At each tour location, Lottery teams encouraged store patrons to try the new Pick 'n Play Monopoly game and gave the players the chance of winning a prize, including \$5 gift cards for Target, Borders, Best Buy and Starbucks as well as Lottery-branded lip balm and Frisbees.

Players immediately took to the new game. Once they tried it, they couldn't wait to play again. In just three short months, "Pick 'n Play" generated more than \$13 million in revenue.

Superintendent recognized

In addition to new games, new recognition came to Lottery's leader. Carolyn Adams received a 2006 "Phenomenal Woman" Award for her record-breaking

sales increases during her tenure as superintendent of the Illinois Lottery. Adams accepted the award from WGN-TV's Merri Dee at the March 3, 2006 ceremony, which served as a precursor to the 14th Annual Expo for Today's Black Woman. Others in attendance at the gala were R&B great Patti LaBelle and South Africa's Winnie Madikizela-Mandela.

Also during the Expo weekend, which featured seminars, entertainment and market vendors, the Lottery executed two balloon drops to interact with attendees. Participants were challenged to find and collect specified numbered balloons resembling Lotto balls to win featured instant tickets.

CAROLYN ADAMS
AND
MERRI DEE

**“ONCE THEY
TRIED
IT, THEY
COULDN'T
WAIT TO
PLAY AGAIN.”**



ILLINOIS LOTTERY RETAILERS

JOMON THOMAS
CICERO

The first two \$3,000 “Set for Life” winners: Chicago Avenue Food Mart, 801 N. Cicero Ave., Chicago, was the first instant game winner (store co-owner: Jomon Thomas pictured below); and Schnucks Markets, 1911 W. Sangamon Ave., Springfield, was the first online winner (store manager Russ Braidlow and associate Kathy McCaddon pictured opposite).



RUSS BRAIDLOW AND
KATHY MCCADDON
SPRINGFIELD



The Illinois Lottery has continually achieved record profits due to the dedication of its 7,761 retailers – gas stations, grocery stores, convenience stores, liquor stores, bars and restaurants. Retailers are the foundation of Lottery sales, and in FY06 we were able to add 571 new retailers; a 7 percent increase from the previous fiscal year.

Commitment to retailers

The Illinois Lottery is committed to maintaining our valuable and productive relationship with our retailers – most of whom are small business owners and depend on sales of our products to help make their business profitable and successful. We are proud to report that 7,249 retailers are using online terminals to sell Lottery tickets – more than 93 percent – and a 6 percent increase in the last five years.

As part of our dedication to our retailers, the Lottery periodically performs upgrades to its online equipment. In December 2005, Lottery added Instant Game Ranking Reports to Lottery terminals to allow retailers to view the instant games that are selling best in their stores. Retailers recommended this type of reporting to help assist them with instant-game inventory control.

At FY06's LEAP (Lottery Excels at Partnership) meetings, retailers were able to get a sneak-peak at new Lottery games, promotions and operational enhancements. A block of time is always reserved for retailer comments and suggestions. Dozens of suggestions made by retailers at LEAP meetings have been implemented by the Lottery.

Retailers win, too!

Commissions and bonuses are a great way for retailers to earn some extra cash while selling Lottery products. In FY06 the Illinois Lottery paid our retailers over \$99 million in commissions, 8 percent more than last year, and \$2.2 million in bonuses. Retailers earn a bonus payment of 1 percent when they sell a winning ticket to a player whose prize is \$1,000 or greater.

During our “Set for Life” summer promotion, 32 retailers won \$3,000 each in a promotion made just for them. Two winners were awarded each week (one for instant sales; one for Pick ‘n Play sales). Retailers had the opportunity to win more than one time within either or both categories. This program kept the “Set for Life” summer promotion top of mind with retailers helping to drive record-breaking sales.



STATE OF ILLINOIS DEPARTMENT OF REVENUE ILLINOIS LOTTERY

INDIVIDUAL NONSHARED PROPRIETARY FUND FINANCIAL STATEMENTS

JUNE 30, 2006



INDEPENDENT AUDITORS' REPORT

Department of Revenue - Illinois Lottery
State of Illinois

We have audited the accompanying financial statements of the State Lottery Fund of the State of Illinois, Department of Revenue - Illinois Lottery (Department) as of and for the year ended June 30, 2006, as listed in the Table of Contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying financial statements present only the State Lottery Fund and do not purport to, and do not, present fairly the financial position of the State of Illinois and Department of Revenue as of June 30, 2006, and its changes in financial position and cash flows for the month and the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State Lottery Fund of the Department as of June 30, 2006, and the changes in financial position and cash flows, thereof for the month and the year 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 a report dated November 15, 2006 on our consideration of the Department's internal control over financial reporting of the State Lottery Fund and on our tests of the Department's compliance with certain provisions of laws, regulations, contracts and, grant agreements 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.

The Department has not presented a management’s discussion and analysis and budgetary comparison information of the State Lottery Fund that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The schedules listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the financial statements of the State Lottery Fund of the Department. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

E. C. Ortiz & Co., LLP
 Chicago, Illinois
 November 15, 2006

STATE OF ILLINOIS

DEPARTMENT OF REVENUE - ILLINOIS LOTTERY

STATE LOTTERY FUND

STATEMENT OF NET ASSETS

June 30, 2006

ASSETS

<u>Current Assets</u>	
Cash and cash equivalents	\$ 18,823,246
Accounts receivable	12,946,222
Due from Common School Fund	65,685,363
Due from Deferred Prize Winners Trust Fund	1,039,924
Investments in prize annuities, current portion	129,116
Deferred agent commissions	80,240
Inventories	1,291,002
Total Current Assets	99,995,113
<u>Non-Current Assets</u>	
Investments in prize annuities	974,654
Capital assets, net of accumulated depreciation	694,728
Total Non-Current Assets	1,669,382
Total Assets	101,664,495

LIABILITIES

<u>Current Liabilities</u>	
Annuity prizes payable, current portion	129,116
Accounts payable and accrued expenses	11,792,214
Deferred revenues	2,365,161
Accrued prizes payable	
Pick Three game	6,690,181
Pick Four game	1,696,184
Lotto game	7,150,116
Little Lotto game	4,046,021
Mega Millions	549,305
Extra and Numbers Now	75,077
Pick N Play	371,943
Other Games	37,491,308
Due to Other State Fund	541,627
Compensated absences	21,192
Total Current Liabilities	72,919,445
<u>Non-Current Liabilities</u>	
Compensated absences	1,205,589
Annuity prizes payable	974,654
Total Non-Current Liabilities	2,180,243
Total Liabilities	75,099,688

NET ASSETS

Investment in capital assets	694,728
Restricted for Common School Fund	25,870,079
	\$ 26,564,807

The accompanying notes to financial statements are an integral part of these statements.

STATE OF ILLINOIS
DEPARTMENT OF REVENUE - ILLINOIS LOTTERY
STATE LOTTERY FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	For the Month Ended		For the Twelve Months Ended	
	June 30, 2006		June 30, 2006	
	Amount	Percent of Total Revenues	Amount	Percent of Total Revenues
OPERATING REVENUES				
Ticket Sales				
Instant games	\$ 78,166,072	51.5	\$ 975,821,153	48.9
Pick Three game	25,420,224	16.7	309,206,710	15.5
Pick Four game	14,262,330	9.4	170,065,244	8.5
Little Lotto game	9,546,085	6.3	125,473,227	6.3
Mega Millions	11,112,731	7.3	243,842,559	12.2
Lotto game	8,164,070	5.4	122,697,535	6.2
Lotto Subscription game	198,240	0.1	2,646,765	0.1
Little Lotto Subscription game	86,210	0.1	1,087,759	0.1
Pick N Play	2,578,433	1.7	11,986,013	0.6
Numbers Now 3	-	-	1,019,365	0.1
Numbers Now 4	-	-	416,996	0.0
Total Ticket Sales	149,534,395	98.5	1,964,263,326	8.5
Unclaimed Prizes	1,978,689	1.3	25,079,097	1.3
Other Operating Revenues	375,070	0.2	4,499,808	0.2
Total Revenues	151,888,154	100.0	1,993,842,231	100.0
OPERATING EXPENSES				
Prizes				
Instant games	50,326,143	33.1	651,403,973	32.7
Pick Three game	12,328,705	8.1	154,726,483	7.8
Pick Four game	7,299,148	4.8	82,204,316	4.1
Mega Millions	4,727,577	3.1	124,631,893	6.3
Little Lotto game	5,417,968	3.6	63,897,327	3.2
Lotto game	10,737,309	7.1	72,052,171	3.6
Pick N Play	1,637,698	1.1	8,399,970	0.4
Numbers Now 3	-	-	606,220	0.0
Numbers Now 4	-	-	260,880	0.0
Extra Pick	25,637	0.0	25,637	0.0
Total Prizes	92,500,185	60.9	1,158,208,870	58.1
Commissions and Fees				
Agents	7,592,137	5.0	99,274,128	5.0
Independent contractor	3,138,655	2.1	40,547,231	2.0
Distributors	444,462	0.3	5,162,603	0.3
Total Commissions and Fees	11,175,254	7.4	144,983,962	7.3
Other Operating Expenses	5,728,553	3.8	56,250,983	2.8
Total Prizes, Commissions and Fees and Other Operating Expenses	109,403,992	72.1	1,359,443,815	68.2
NET OPERATING INCOME	42,484,162	27.9	634,398,416	31.8

The accompanying notes to financial statements are an integral part of these statements.

STATE OF ILLINOIS
DEPARTMENT OF REVENUE - ILLINOIS LOTTERY
STATE LOTTERY FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	For the Month Ended		For the Twelve Months Ended	
	June 30, 2006		June 30, 2006	
	Amount	Percent of Total Revenues	Amount	Percent of Total Revenues
NON OPERATING INCOME (EXPENSE)				
Interest	10,181	0.0	109,621	0.0
Loss on Disposal of Fixed Assets	(13,428)	(0.0)	(13,428)	(0.0)
	(3,247)	(0.0)	96,193	0.0
NET INCOME BEFORE TRANSFERS	42,480,915	27.9	634,494,609	31.8
TRANSFERS OUT				
Common School Fund	78,801,536		641,684,360	
Ticket for the Cure	218,118		2,600,639	
Veterans Fund	310,378		1,613,830	
Other Special Fund	16,681		16,681	
CHANGE IN NET ASSETS	(36,865,798)		(11,420,901)	
TOTAL NET ASSETS, BEGINNING	63,430,605		37,985,708	
TOTAL NET ASSETS, END	\$ 26,564,807		\$ 26,564,807	

The accompanying notes to financial statements are an integral part of these statements.

STATE OF ILLINOIS
DEPARTMENT OF REVENUE - ILLINOIS LOTTERY
STATE LOTTERY FUND
STATEMENT OF CASH FLOWS

	For the Month Ended June 30, 2006	For the Year Ended June 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from agents (net of cash prizes paid and commissions retained by agents*)	\$ 70,691,196	\$ 1,019,569,752
Cash prizes paid	(25,165,254)	(273,485,156)
Cash paid to vendors and employees	(8,426,934)	(103,544,828)
Other operating receipts	375,070	4,499,808
Net Cash Provided by Operating Activities	37,474,078	647,039,576
CASH FLOWS USED IN NONCAPITAL FINANCING ACTIVITIES		
Transfers to Common School Fund	(51,528,996)	(670,607,704)
Transfers to Ticket for the Cure and Veteran Fund	(564,765)	(3,672,839)
Cash Used in Noncapital Financing Activities	(52,093,761)	(674,280,543)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Fixed asset acquisition	-	(292,420)
Cash Used in Capital and Related Financing Activities	-	(292,420)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest from short term investments credited to Common School Fund	-	-
Interest from short term investments	10,182	109,621
Cash Provided by Investing Activities	10,182	109,621
NET DECREASE IN CASH AND CASH EQUIVALENTS	(14,609,502)	(27,423,766)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	33,432,748	46,247,012
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	\$ 18,823,246	\$ 18,823,246

The accompanying notes to financial statements are an integral part of these statements.

STATE OF ILLINOIS
DEPARTMENT OF REVENUE - ILLINOIS LOTTERY
STATE LOTTERY FUND
STATEMENT OF CASH FLOWS

	For the Month Ended June 30, 2006	For the Year Ended June 30, 2006
Reconciliation of Net Operating Income to Net Cash Provided By Operating Activities:		
Net operating income	\$ 42,484,162	\$ 634,398,416
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Gain from Transfer of fixed assets	(1,466)	(1,466)
Depreciation	18,587	284,527
Provision for doubtful accounts	893,099	893,099
Changes in operating assets and liabilities:		
Increase in accounts receivable	(4,702,677)	(6,465,363)
Decrease (increase) in due from Deferred Prize Winners Trust Fund	4,940	(329,382)
Decrease (increase) in inventories	(458,321)	320,333
Decrease (increase) in deferred agent commissions	(11,456)	35,814
Increase (decrease) in deferred revenues	193,727	(605,040)
Increase (decrease) in accounts payable and accrued expenses , accrued prizes payable and compensated absences	(946,517)	18,508,638
Total adjustments	(5,010,084)	12,641,160
Net Cash Provided by Operating Activities	\$ 37,474,078	\$ 647,039,576
* Cash prizes paid and commissions retained by agents:		
Cash prizes paid by agents	\$67,626,695	\$839,268,763
Commissions retained by agents	\$7,600,653	\$99,247,508

The accompanying notes to financial statements are an integral part of these statements.

STATE OF ILLINOIS
DEPARTMENT OF REVENUE - ILLINOIS LOTTERY
STATE LOTTERY FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

1. Description of Fund

The Department of Revenue - Illinois Lottery (Department) administers the nonshared proprietary fund - State Lottery Fund described below. A nonshared fund is a fund in which a single State agency is responsible for administering substantially all financial transactions of the fund.

A proprietary fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is for the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

2. Summary of Significant Accounting Policies

The financial statements of the State Lottery Fund have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

(a) Reporting Entity

As defined by GAAP, the financial reporting entity consists of primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

- (1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- (2) Fiscal dependency on the primary government.

Based upon the required criteria, the State Lottery Fund has no component unit, nor is it a component unit of any other entity. However, because the State Lottery Fund is not legally separate from the State of Illinois (State), it is included in the financial statements of the State as a proprietary fund. The State's Comprehensive Annual Financial Report (CAFR) may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois, 62704-1871.

STATE OF ILLINOIS
DEPARTMENT OF REVENUE - ILLINOIS LOTTERY
STATE LOTTERY FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

The financial statements present only the State Lottery Fund administered by the Department and do not purport to, and do not, present fairly the financial position of the Department as of June 30, 2006 and changes in its financial position and cash flows, where applicable, for the six months then ended in conformity with accounting principles generally accepted in the United States of America.

(b) Basis of Presentation

In government, the basic accounting and reporting entity is a fund. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves, and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. A statement of net assets, statement of revenues, expenses, and changes in net assets, and statement of cash flows have been presented for the nonshared proprietary fund administered by the Department.

Operating revenues, such as sale of lottery tickets, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as interest income, result from nonexchange transactions or ancillary activities.

(c) Basis of Accounting

The individual nonshared proprietary fund is reported using the economic resources measurement focus and the accrual basis of accounting.

Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Revenues from the sale of instant tickets 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 the lottery instant game. Revenues from the sale of on-line tickets are recognized in the period that includes the drawing date for the tickets sold. Deferred revenues from these sales represent tickets sold for future prize drawings. Commissions to agents and to the independent contractor, who performs computer services and certain other services relating to the operation of these games, are recognized in the period in which the related revenues are recognized. The Department subscription sales plan provides for advance sale of subscriptions for participation in the Lotto and Little Lotto games for various periods up to two years. A pro-rata portion of the sales revenues is recognized for each drawing date. The amount collected applicable to future drawing dates is included in deferred revenues in the

STATE OF ILLINOIS
DEPARTMENT OF REVENUE - ILLINOIS LOTTERY
STATE LOTTERY FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

accompanying financial statements. Commissions on subscription sales are paid to agents quarterly.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the individual nonshared proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. The Department also has the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Department has elected not to follow subsequent private-sector guidance as for the individual nonshared proprietary fund administered by the Department.

(d) Cash and Cash Equivalents

Cash and cash equivalents consist principally of deposits held in the State Treasury and locally held funds. The State Lottery Fund considers all highly liquid investments with maturity of three months to be cash equivalents.

(e) Inventories

Inventories, consisting of instant lottery tickets, are valued at cost, principally on the first-in, first-out method.

(f) Interfund Transactions

The State Lottery Fund has the following types of inter-fund transactions:

Reimbursements – repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures.

Transfers – flows of assets (such as cash or goods) without the equivalent flows of assets in return and without the requirement for repayment.

(g) Capital Assets

Capital Assets purchased for \$5,000 or more are stated at historical cost net of accumulated depreciation. Depreciation is computed using the straight-line method according to the following estimated useful lives:

	<u>Estimated lives</u>
Equipment	5 years
Automobile	3 years

STATE OF ILLINOIS
DEPARTMENT OF REVENUE - ILLINOIS LOTTERY
STATE LOTTERY FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

(h) Compensated Absences

The liability for compensated absences consists of unpaid, accumulated vacation and sick leave balances for employees. A liability has been calculated based on the employees' salary level and includes salary related costs (e.g., social security and Medicare tax).

Legislation that became effective January 1, 1998 capped the paid sick leave for all State Employees' Retirement System members at December 31, 1997. Employees continue to accrue twelve sick days per year, but will not receive monetary compensation for any additional time earned after December 31, 1997. Sick days earned between 1984 and December 31, 1997 (with a 50% cash value) would only be used after all days with no cash value are depleted. Any sick days earned and unused after December 31, 1997 will be converted to service time for purposes of calculating employee pension benefits.

(i) Net Assets

Invested in capital assets net of related debt – consists of capital assets, net of accumulated depreciation, less the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – consist of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources when they are needed.

(j) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Cash and Cash Equivalents

The State Treasurer is the custodian of the State's cash and cash equivalents for funds maintained in the State Treasury. Cash on deposit with the State Treasurer amounted to \$13,858,384.

STATE OF ILLINOIS
DEPARTMENT OF REVENUE - ILLINOIS LOTTERY
STATE LOTTERY FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

The Department independently manages cash and cash equivalents maintained outside the State Treasury. The carrying amount of locally held cash funds totaled \$4,964,862.

The Department has agreements with the depository bank whereby 110% of all deposits in excess of the depository insurance limit are to be collateralized by depository bank owned securities, with the securities held by the Federal Reserve, as an agent of the Department, and held in the name of the Department.

The cash deposits are insured or collateralized with securities held by the State or by its agent in the State's name. The State Treasurer invests all cash on deposit in the State Lottery Fund. Interest earned on cash invested is credited directly to the Common School Fund by the State Treasurer.

The Department is authorized to pay validated prizes of up to and including \$25,000 from a separate locally held check writing account. As of June 30, 2006, the carrying amount and bank balance of this account totaled \$2,602,402 and is collateralized through the Illinois Public Treasurer's Investment Pool. Investment income earned is transferred to the Common School Fund.

4. Accounts Receivable

Accounts receivable as of June 30, 2006 are as follows:

Pick Three, Pick Four, Lotto, and Instant Games	\$18,312,887
Less: allowance for bad debts	5,366,665
	<u>\$12,946,222</u>

Accounts receivable from Pick Three, Pick Four, Lotto games, and Instant games represent proceeds from lottery ticket sales, which are collected by the Department once a week through electronic fund transfers. If normal collection methods fail, the Department obtains assistance from the Office of the Attorney General, State Comptroller (State Offset System) and private collection agencies, which were contracted through the Debt Collection Board.

STATE OF ILLINOIS
DEPARTMENT OF REVENUE - ILLINOIS LOTTERY
STATE LOTTERY FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

5. Interfund Balances and Activities

The following balances as of June 30, 2006 represent amounts due from/to other Department and State of Illinois Funds:

Interfund Receivables:

<u>Fund</u>	<u>Amount</u>	<u>Description/Purpose</u>
Common School Fund	\$65,685,363	Represents amounts transferred to Common School Fund in excess of current operating needs.
Deferred Prize Winners Trust Fund	1,039,924	Represents unclaimed prizes or excess monies transferred for payment of prizewinners.
Total Due from other Department and State of Illinois Funds	<u>\$66,725,287</u>	

Interfund Payables:

Ticket for the Cure Fund	\$227,778	Represents net proceeds from sale of special instant scratch-off game tickets.
Illinois Veterans Assistance Fund	313,849	Represents net proceeds from sale of special instant scratch-off game tickets.
Total Due to Other State Funds	<u>\$541,627</u>	

The amount transferred to Common School Fund for the month ended June 30, 2006 amounted to \$78,801,536.

Public Act 94-120, effective July 6, 2005 established the framework for the Department to offer a special instant scratch-off game with the title of "Ticket for the Cure". The game commenced on January 1, 2006 and shall be discontinued on December 31, 2011. The net revenues from the sale of this ticket are deposited into the Ticket for the Cure Fund. Total net revenues for the game from initial sale amounted to \$2,600,639. Total amount due to the Ticket for the Cure Fund as of June 30, 2006 amounted to \$227,778 and is reported as Due to Other State Funds.

Public Act 94-585, effective August 16, 2005 established the framework for the Department to offer a special instant scratch-off game for the benefit of Illinois Veterans. The game commenced on February 1, 2006. The net revenue from the sale of this ticket are deposited

STATE OF ILLINOIS
DEPARTMENT OF REVENUE - ILLINOIS LOTTERY
STATE LOTTERY FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

into the Illinois Veterans Assistance Fund. Total net revenues for the game from initial sale amounted to \$1,613,830. Total amount due to the Illinois Veterans Assistance Fund as of June 30, 2006 amounted to \$313,849 and is reported as Due to Other State Funds.

6. Capital Assets

Capital assets activities for the eleven months ended June 30, 2006 are as follows:

	Balance 07/01/05	Additions	Deletions	Balance 6/30/06
Equipment and Automobile				
Cost	\$3,187,648	\$299,751	\$714,004	\$2,773,395
Accumulated Depreciation	(2,488,851)	290,392	(700,576)	(2,078,667)
Net Book Value	\$ 698,797	\$ 9,359	\$ 13,428	\$ 694,728

7. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses as of June 30, 2006 are as follows:

Trade	\$10,293,210
Commissions	1,456,895
Others	42,109
	<u>\$11,792,214</u>

8. Investments and Prizes Payable in Installments

Prior to July 30, 1985, certain prizes awarded were payable to the winners in annual installments ranging from 10 years to life of the prize winners, with the first payment being made at the time of the drawing. The Department entered into agreements with insurance companies under which the Department purchased annuities under group contracts that provide payments corresponding to the Department's obligation to these winners.

Interest rate risk is the risk that an investment's fair value decreases as market interest rates increase. Typically, this risk is higher in debt securities with longer maturities. The Department purchases investments with maturities scheduled to coincide with cash requirements. Interest rate risk is managed according to the purpose of the investments and the projected time frame for the use of these assets.

The investment in prize annuities are subject to fluctuations in fair value due to interest rate risk, but these annuities are held to maturity to satisfy the annual installment obligations to prize winners. The fair value at maturity is the face value of the annuity, regardless of the fluctuations in value during the time period that the investments are outstanding.

STATE OF ILLINOIS
DEPARTMENT OF REVENUE - ILLINOIS LOTTERY
STATE LOTTERY FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

As required by generally accepted governmental accounting principles, the present value of the annuities and the present value of the related liabilities have been reported in the financial statements for those annuities which were purchased in the name of the Department and for which the Department has retained the rights of ownership. The Department would be liable for future payments if the insurance companies were to default on their payments. The investments in annuities have a weighted average maturity of 7.366 years. The present value of future prize payments, which is reported in the State Lottery Fund, follows:

	Current	Long-Term	Total
For the Year			
2006-2007	\$136,000	\$ -	\$136,000
2007-2008	-	124,000	124,000
2008-2009	-	112,000	112,000
2009-2010	-	100,000	100,000
2010-2011	-	100,000	100,000
2011-2016	-	500,000	500,000
2016-2021	-	422,000	422,000
2021-2026	-	110,000	110,000
2026-2031	-	48,000	48,000
Total Future Prize Payments	136,000	1,516,000	1,652,000
Less: Present Value Adjustments	6,884	541,346	548,230
Present Value of Future Prize Payments as of June 30, 2006	<u>\$129,116</u>	<u>\$ 974,654</u>	<u>\$1,103,770</u>

9. Pension Plan

Substantially all of the Department's full-time employees who are not eligible for another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund of the State of Illinois reporting entity. The SERS is a single-employer public employee retirement system (PERS) in which the State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges Retirement Systems. The financial position and results of operations of the SERS for fiscal year 2005 are included in the State's CAFR for fiscal year ended June 30, 2005. The SERS also issues a separate CAFR that may be obtained by writing to the SERS, 2101 Veterans Parkway, Springfield, Illinois, 62794-9255.

A summary of SERS benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the SERS' CAFR. Also included is a discussion of employer and employee obligations to contribute and the authority under which those obligations are established.

STATE OF ILLINOIS
DEPARTMENT OF REVENUE - ILLINOIS LOTTERY
STATE LOTTERY FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

The Department pays employer retirement contributions based upon an actuarially determined percentage of its payrolls. For fiscal year 2006, the employer contribution rate was 7.792%.

10. Post-employment Benefits

In addition to providing pension benefits, the state provides certain health, dental and life insurance benefits to annuitants who are former state employees.

This includes annuitants of the Department. Substantially all state employees, including the Department's employees, may become eligible for post-employment benefits if they eventually become annuitants. Health and dental benefits include basic benefits for annuitants under the State's self-insurance plan and insurance contract currently in force. Life insurance benefits are limited to \$5,000 per annuitant age 60 and older.

Currently, the state does not segregate payments made to annuitants from those made to current employees for health, dental and life insurance benefits. The cost of health, dental and life insurance benefits is recognized on a pay-as-you-go-basis.

11. Commitments and Contingencies

Contractual Arrangements

The Illinois State Lottery maintains a gaming network of on line locations where all games are sold. GTECH Corporation is responsible for operating the on line games under a contract expiring September 30, 2010.

Litigation

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

12. Other Matters

On May 23, 2006, the Governor's office announced the possible sale or lease of the Illinois Lottery to provide long-term funding for public schools. The sale or lease requires the General Assembly's approval. The potential sale or lease has no immediate impact on the Lottery's financial statements.

SCHEDULE A

STATE OF ILLINOIS
DEPARTMENT OF REVENUE - ILLINOIS LOTTERY
STATE LOTTERY FUND
SCHEDULE OF CHANGES IN ACCRUED PRIZES PAYABLE
FOR THE YEAR ENDED June 30, 2006

	Pick Three Game	Pick Four Game	Lotto Game	Little Lotto Game	Mega Millions	Extra and Numbers Now	Other Games	Total
Beginning Balance	\$ 4,551,847	\$ 297,114	\$ 1,632,519	\$ 5,131,436	\$ 873,043	\$ 11,908	\$ 24,865,566	\$ 37,363,433
Add Prize Expense	154,726,483	82,204,316	72,052,171	63,897,327	124,631,893	9,292,707	651,403,973	1,158,208,870
Less Payments:								
Prize	152,588,149	80,805,246	55,732,631	64,982,742	124,955,631	8,857,595	638,778,231	1,126,700,225
Security	-	-	10,801,943	-	-	-	-	10,801,943
Ending Balance	\$ 6,690,181	\$ 1,696,184	\$ 7,150,116	\$ 4,046,021	\$ 549,305	\$ 447,020	\$ 37,491,308	\$ 58,070,135

SCHEDULE B

**STATE OF ILLINOIS
DEPARTMENT OF REVENUE - ILLINOIS LOTTERY
STATE LOTTERY FUND
SCHEDULE OF OTHER OPERATING EXPENSES**

	For the Month Ended June 30, 2006	For the Year Ended June 30, 2006
	\$	
Personal Services	1,081,822	\$ 7,553,303
Contribution		
Pension	-	42,043
State employees' retirement	74,209	579,994
Social security	71,293	553,615
Insurance	246,743	2,038,383
Contractual services		
Advertising	2,514,026	19,993,073
Professional services	32,258	75,307
Others	229,359	8,459,356
Game promotion	845,851	5,772,934
Electronic data processing	59,577	2,337,311
Printing	-	19,979
Travel	-	45,692
Commodities	-	7,955
Equipment	-	460
Telecommunications	482,465	7,968,459
Operation automotive equipment	72,363	361,113
Expenses of Lottery Control Board	-	2,635
Comptroller mailing	-	50,301
Depreciation	18,587	284,527
Others	-	104,543
Total	<u>\$ 5,728,553</u>	<u>\$ 56,250,983</u>

SCHEDULE C

**STATE OF ILLINOIS
DEPARTMENT OF REVENUE - ILLINOIS LOTTERY
STATE LOTTERY FUND
SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS**

	For the Month Ended June 30, 2006	For the Year Ended June 30, 2006
CASH AND CASH EQUIVALENTS, BEGINNING	<u>\$ 33,432,748</u>	<u>\$ 46,247,012</u>
RECEIPTS		
Ticket sales	150,427,494	1,965,156,425
Wire transfer from 978 fund	1,565,831	3,008,499
Increase in account receivable, net of cash reimbursements	(4,702,677)	(6,465,362)
Increase (decrease) in deferred revenues	193,727	(605,038)
Increase in locally held checkwriting account	81,023	996,255
Other operating revenues	364,295	4,362,688
Increase in agent license fees	10,775	137,120
Total receipts	<u>147,940,468</u>	<u>1,966,590,587</u>
DISBURSEMENTS		
Reimbursements	-	47,282
Vouchers issued for operating expenses and fixed assets	3,743,633	56,168,811
Commissions and fees to agents, independent contractors and distributors	12,339,199	146,044,503
Prizes paid by		
Agents	67,626,695	839,268,763
State Treasurer	21,771,055	218,323,739
Transfers to		
Locally held funds	5,004,623	59,920,438
Common School Fund	51,500,000	670,553,154
Ticket for the Cure Fund	564,765	3,353,948
Veterans Fund	-	318,893
Auditor General	-	14,822
Total disbursements	<u>162,549,970</u>	<u>1,994,014,353</u>
CASH AND CASH EQUIVALENTS, END	<u>\$ 18,823,246</u>	<u>\$ 18,823,246</u>



SCHEDULE D

STATE OF ILLINOIS
DEPARTMENT OF REVENUE - ILLINOIS LOTTERY
STATE LOTTERY FUND
RECONCILIATION OF CASH RECEIPTS WITH
DEPOSITS TO THE STATE LOTTERY FUND

	For the Month Ended June 30, 2006	For the Year Ended June 30, 2006
TOTAL RECEIPTS	\$ 147,940,468	\$ 1,966,590,587
Add (deduct):		
Increase in cash account balances during the period	9,192,897	3,048,038
Increase in deposits in transit	92,166	58,374
Deposit to Ticket for the Cure Fund	(324,870)	(2,372,861)
Deposit to Veteran Fund	(239,895)	(1,299,980)
Prior year refunds	-	13,668
Items deducted from sales by agents and distributors:		
Commissions and fees to agents, independent contractors and distributors	(12,339,199)	(146,044,503)
Prizes paid by agents	(67,626,695)	(839,268,763)
Printing Costs Scientific	-	-
DEPOSITS TO THE STATE LOTTERY FUND	<u>\$ 76,694,872</u>	<u>\$ 980,724,560</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

Department of Revenue - Illinois Lottery
State of Illinois

We have audited the financial statements of the State Lottery Fund of the State of Illinois, Department of Revenue - Illinois Lottery (Department) as of and for the year ended June 30, 2006, and have issued our report thereon dated November 15, 2006. 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 Department's internal control over financial reporting for the State Lottery Fund in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain immaterial instances of internal control deficiencies, which we have reported to management of the Department in a separate letter dated November 15, 2006.

Compliance and Other Matters

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

This report is intended solely for the information and use of the management of the Department and is not intended to be and should not be used by anyone other than this specified party.

E. C. Ortiz & Co., LLP
Chicago, Illinois
November 15, 2006

STATE OF ILLINOIS
DEPARTMENT OF REVENUE
ILLINOIS LOTTERY



INDIVIDUAL NONSHARED FIDUCIARY FUNDS
FINANCIAL STATEMENTS

JUNE 30, 2006



INDEPENDENT AUDITORS' REPORT

Department of Revenue - Illinois Lottery
State of Illinois

We have audited the accompanying financial statements of the Deferred Prize Winners Trust Fund and the Lottery Agent Security Deposit Fund of the State of Illinois, Department of Revenue - Illinois Lottery (Department) as of and for the year ended June 30, 2006, as listed in the Table of Contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying financial statements present only the Deferred Prize Winners Trust Fund and the Lottery Agent Security Deposit Fund and do not purport to, and do not, present fairly the financial position of the State of Illinois and the Department of Revenue as of June 30, 2006, and its changes in financial position for the month and the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Deferred Prize Winners Trust Fund and the Lottery Agent Security Deposit Fund of the Department as of June 30, 2006, and the changes in fiduciary net assets for the month and the year 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 a report dated November 15, 2006 on our consideration of the Department's internal control over financial reporting of the Deferred Prize Winners Trust Fund and the Lottery Agent Security Deposit Fund and on our tests of the Department's compliance with certain provisions of laws, regulations, contracts and grant agreements 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.

The Department has not presented a management's discussion and analysis and budgetary comparison information of the Deferred Prize Winners Trust Fund and the Lottery Agent Security Deposit Fund that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

E. C. Ortiz & Co., LLP
Chicago, Illinois
November 15, 2006

STATE OF ILLINOIS
DEPARTMENT OF REVENUE - ILLINOIS LOTTERY
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

	DEFERRED PRIZE WINNERS TRUST FUND	LOTTERY AGENT SECURITY DEPOSIT FUND
ASSETS		
<u>Current Assets</u>		
Cash and cash equivalents	\$ 1,547,123	\$ 435,420
Investments in prize securities, current portion	142,623,397	-
Total Current Assets	144,170,520	435,420
<u>Non-Current Asset</u>		
Investments in prize securities	565,658,823	-
Total Assets	709,829,343	435,420
LIABILITIES		
<u>Current Liabilities</u>		
Security deposits payable	-	435,420
Due to State Lottery Fund	1,039,924	-
Others	507,199	-
Total Liabilities	1,547,123	435,420
NET ASSETS		
Restricted for prize winners	708,282,220	-
Total Net Assets	\$ 708,282,220	\$ -

The accompanying notes to financial statements are an integral part of these statements.

STATE OF ILLINOIS
DEPARTMENT OF REVENUE - ILLINOIS LOTTERY
STATEMENT OF CHANGES IN NET ASSETS
DEFERRED PRIZE WINNERS TRUST FUND

	For the Month Ended June 30, 2006	For the Year Ended June 30, 2006
Additions:		
Prize securities deposited	\$ -	12,148,095
Interest income	3,896,673	51,134,173
	3,896,673	63,282,268
Deductions:		
Payments to prizewinners	-	170,568,715
Net decrease in fair value of investments	1,777,444	54,791,626
	1,777,444	225,360,341
Decrease in net assets	2,119,229	(162,078,073)
Net assets restricted for prizewinners, beginning	706,162,991	870,360,293
Net assets restricted for prizewinners, end	\$ 708,282,220	\$ 708,282,220

The accompanying notes to financial statements are an integral part of these statements.

STATE OF ILLINOIS
DEPARTMENT OF REVENUE - ILLINOIS LOTTERY
INDIVIDUAL NONSHARED FIDUCIARY FUNDS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

(1) **Description of Funds**

The Department of Revenue - Illinois Lottery (Department) administers the non-shared fiduciary funds, Deferred Prize Winners Trust Fund and Lottery Agent Security Deposit Fund, described below. A non-shared fund is a fund in which a single State agency is responsible for administering substantially all financial transactions of the fund.

The Deferred Prize Winners funds account for transactions, assets, liabilities and fund balance reserved for payments to be made to prizewinners.

The Lottery Agency Security Deposit Fund account for assets held by the State of Illinois (State), acting in the capacity of an agent, for distribution to other governmental units or designated beneficiaries. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

(2) **Summary of Significant Accounting Policies**

The financial statements of the Deferred Prize Winners Trust Fund and Agent Security Deposit Fund have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

(b) **Reporting Entity**

As defined by GAAP, the financial reporting entity consists of primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

- (1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- (2) Fiscal dependency on the primary government.

Based upon the required criteria, none of the individual non-shared fiduciary funds have component units, nor is any one a component unit of any other entity. However, because the individual non-shared fiduciary funds are not legally separate from the State, they are included in the financial statements of the State as fiduciary funds. The State of Illinois' Comprehensive Annual Financial Report (CAFR) may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois, 62704-1871.

STATE OF ILLINOIS
DEPARTMENT OF REVENUE - ILLINOIS LOTTERY
INDIVIDUAL NONSHARED FIDUCIARY FUNDS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

The financial statements present only the Deferred Prize Winners Trust Fund and Lottery Agent Security Deposit Fund administered by the Department and do not purport to, and do not, present fairly the financial position of the Department of Revenue as of June 30, 2006, and changes in its financial position for the year then ended in conformity with GAAP.

(c) **Basis of Presentation**

In government, the basic accounting and reporting entity is a fund. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves, and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. A statement of net assets and changes in net assets has been presented for the non-shared fiduciary funds administered by the Department.

(c) **Basis of Accounting**

The accounts of the Fiduciary Funds are reported using the economic resources measurement focus and the accrual method of accounting. Under this measurement focus, all assets and liabilities associated with the operation of this fund is included on the statement of net assets. Under the accrual method of accounting, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period in which they are incurred.

(d) **Cash and Cash Equivalents**

The Department considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Cash and cash equivalents consist principally of deposits held in the State Treasury and locally held funds.

(e) **Interfund Transactions**

The Deferred Prize Winners Trust Fund has non-reciprocal interfund activity or interfund transfers in which there are flows of assets without equivalent flows of assets in return and without a requirement for repayment.

(f) **Net Assets**

Equity is displayed as restricted net assets. This consists of net assets legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the Department's policy to use restricted resources first, then unrestricted resources when they are needed.

STATE OF ILLINOIS
DEPARTMENT OF REVENUE - ILLINOIS LOTTERY
INDIVIDUAL NONSHARED FIDUCIARY FUNDS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

(3) Cash and Cash Equivalents

As of June 30, 2006, the carrying amount and bank balance of the Deferred Prize Winners Trust Fund were \$1,547,123 on deposit with the State Treasurer. The carrying amount and bank balance of the locally held Lottery Agent Security Deposit Fund were \$435,420.

Deposits in the custody of the State Treasurer are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Department does not own individual securities. Details on the nature of these investments are available within the State of Illinois' CAFR.

The Department has agreements with the depository bank whereby 110% of all deposits in excess of the depository insurance limit are to be collateralized by depository bank owned securities, with the securities held by the Federal Reserve, as an agent of the Department, and held in the name of the Department.

(4) Interfund Balances and Activity

As of June 30, 2006, the amount due to the State Lottery Fund amounted to \$1,039,924 which represents excess monies that shall be transferred to the State Lottery Fund.

(5) Activities of the Lottery Agent Security Deposit Fund

The activities of the Lottery Agent Security Deposit Fund are as follows:

	Balance 07/01/05	Additions	Deductions	Balance 06/30/06
ASSETS				
Current Assets				
Locally held funds	\$482,920	\$97,885	\$145,385	\$435,420
Total Assets	<u>\$482,920</u>	<u>\$97,885</u>	<u>\$145,385</u>	<u>\$435,420</u>
LIABILITIES				
Current Liabilities				
Security deposits payable	\$482,920	\$97,885	\$145,385	\$435,420
Total Liabilities	<u>\$482,920</u>	<u>\$97,885</u>	<u>\$145,385</u>	<u>\$435,420</u>

STATE OF ILLINOIS
DEPARTMENT OF REVENUE - ILLINOIS LOTTERY
INDIVIDUAL NONSHARED FIDUCIARY FUNDS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

(6) Investments and Prizes Payable in Installments

Certain prizes awarded are payable to the winners in annual installments ranging from 19 years to life of the prize winners, with the first payment being made at the time of the drawing. Effective July 30, 1985, the law provides that the State Treasurer may, with consent of the Director, contract to invest in securities which provide payments corresponding to the Department's obligation to these winners. Investments in prize securities are in the form of United States Treasury zero-coupon bonds and are reported at fair value as required by GASB Statement No. 31. The corresponding liability to the prize winners is recorded in prizes payable of the State Lottery Fund.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Department will not be able to recover the value of its investments that are in the possession of an outside party. Investments are held by the custodial bank's trust department in the name of the State Treasurer. Prior to July 1985, the Department did not have a formal investment policy that limited investment choices. Subsequent to July 30, 1985, the Department is limited to investing in direct obligations of the United States of America backed by the full faith and credit of the United States of America.

Interest rate risk is the risk that an investment's fair value decreases as market interest rates increase. Typically, this risk is higher in debt securities with longer maturities. The Department does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Department purchases investments with maturities scheduled to coincide with cash requirements. Interest rate risk is managed according to the purpose of the investments and the projected time frame for the use of these assets. The risk that the Department will actually realize material losses from its investments in government securities resulting from changes in market interest rates is mitigated by the low probability that these securities will have to be sold prior to maturity.

The fair value of the securities is reflected in the accompanying financial statements of the Deferred Prize Winners Trust Fund as assets and as reserved fund equity. The original cost of the securities plus accrued interest is \$36,169,217 less than fair value as of June 30, 2006. These securities were purchased at discount rates ranging from 4.22% to 10.57% and mature in annual installments over a period of 25 years.

Investments in prize securities are in the form of United States Treasury zero-coupon bonds. Investments are held by a custody bank in the name of the State Treasurer. Credit ratings are not required for U.S. Government and agency securities that are explicitly guaranteed by the U. S. government. The investments have a weighted average maturity of 3.85 years. The fair value and investment maturities of the investments at June 30, 2006 are as follows:

**STATE OF ILLINOIS
DEPARTMENT OF REVENUE - ILLINOIS LOTTERY
INDIVIDUAL NONSHARED FIDUCIARY FUNDS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Investment Maturities (In Years)	Fair Value Amounts
Less than 1 year	\$142,623,397
1 to 5 years	374,864,448
6 to 10 years	147,322,470
More than 10 years	43,471,905
Total	<u>\$708,282,220</u>

The Department has an unconditional obligation to pay all grand prizewinners the future value of the prize. The fair value of the future prize payments, which is reported in the Deferred Prize Winners Trust Fund, follows:

	Current	Long-Term	Total
For the year:			
2006-2007	\$146,511,116	\$ -	\$146,511,116
2007-2008		133,187,230	133,187,230
2008-2009		118,527,213	118,527,213
2009-2010		99,967,801	99,967,801
2010-2011		79,239,275	79,239,275
2011-2016		209,254,441	209,254,441
2016-2021		52,664,335	52,664,335
2021-2026		33,812,001	33,812,001
2027-2031		6,012,000	6,012,000
Total Future Prize Payments	146,511,116	732,664,296	879,175,412
Less Present Value Adjustments	10,573,295	196,489,114	207,062,409
Present Value of Future Prize Payments as of June 30, 2006	135,937,821	536,175,182	672,113,003
Add Adjustment to Reflect Fair Value	6,685,576	29,483,641	36,169,217
Fair Value of Future Prize Payments as of June 30, 2006	<u>\$142,623,397</u>	<u>\$565,658,823</u>	<u>\$708,282,220</u>

(7) Other Matters

On May 23, 2006, the Governor's office announced the possible sale or lease of the Illinois Lottery to provide long-term funding for public schools. The sale or lease requires the General Assembly's approval. The potential sale or lease has no immediate impact on the Lottery's financial statements.



**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**

Department of Revenue - Illinois Lottery
State of Illinois

We have audited the financial statements of the Deferred Prize Winners Trust Fund and the Lottery Agent Security Deposit Fund of the State of Illinois, Department of Revenue - Illinois Lottery Department) as of and for the year ended June 30, 2006, and has issued our report thereon dated November 15, 2006. 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 Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain immaterial instances of internal control deficiencies, which we have reported to management of the Department in a separate letter dated November 15, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements of the Deferred Prize Winners Trust Fund and the Lottery Agent Security Deposit Fund are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion

on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management of the Department and is not intended to be and should not be used by anyone other than this specified party.

E. C. Ortiz & Co., LLP

Chicago, Illinois
November 15, 2006

**THANKS FOR
A RECORD
BREAKING YEAR!**

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Illinois Lottery
James R. Thompson Center
100 W. Randolph, 7th Floor
Chicago, IL 60601
www.illinoislottery.com
312.793.2385
8:30am–4:30pm

Regional Office 1, 2 & 6
9511 Harrison St.
Des Plaines, IL 60016
847.294.4851
8:30am–4:30pm

Regional Office 3
200 S. Wyman
Rockford, IL 61101
815.987.7018
8:30am–4:30pm

Regional Office 4
15 Executive Dr., Suite 1
Fairview Heights, IL 62208
618.624.8670
8:30am–4:30pm

Regional Office 5 & Lottery Central
101 West Jefferson St.
Springfield, IL 62702
217.524.5246
217.524.5155
8:30am–4:30pm

If you believe you or someone you know has a gambling problem, call 1.800.426.2537 for assistance.