

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

Financial Statements  
and Supplementary Information

June 30, 2010 and 2009

**NEW JERSEY DIVISION OF STATE LOTTERY**

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the New Jersey Division of State Lottery (the "Division of State Lottery") as of and for the years ended June 30, 2010 and 2009. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Division of State Lottery's internal control over financial reporting. Accordingly, we express no such opinion. 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the New Jersey Division of State Lottery at June 30, 2010 and 2009, 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 October 20, 2010 on our consideration of Division of State Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

- AN INDEPENDENTLY OWNED MEMBER OF THE RSM MCGGLADREY NETWORK
- AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
- NEW JERSEY SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS
- NEW YORK SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS
- PENNSYLVANIA INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
- AICPA'S PRIVATE COMPANIES PRACTICE SECTION
- AICPA'S CENTER FOR AUDIT QUALITY
- REGISTERED WITH THE PCAOB

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

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

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Mercaderes, P.C.*  
*Certified Public Accountants*

October 20, 2010

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### INTRODUCTION

The following discussion and analysis provides an analytical overview of the financial position and activities of the New Jersey Division of State Lottery (the "Division of State Lottery") for the years June 30, 2010 and 2009. 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. Gtech is responsible to provide communications between the Division of State Lottery's sales terminals and Gtech data centers.
- Pollard Bank Note, Scientific Games and Gtech Printing are contracted to print and support instant game products.
- Verizon Communications was contracted to provide digital communication between the Division of State Lottery's approximately 6,100 sales terminals and the Gtech data centers for part of fiscal year 2010. Gtech gradually took over this responsibility starting in the fall of 2009.

The Division of State Lottery offers various products for sale with prize awards ranging from \$1.00 to annuity prizes well 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
- Powerball

### FINANCIAL HIGHLIGHTS

The Division of State Lottery's financial position at June 30, 2010 and 2009, consisted of total assets of \$722 million and \$803 million, respectively, and total liabilities of \$712 million and \$794 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, 2010 and 2009, were \$527 million and \$612 million, respectively. Net assets increased from \$9 million in fiscal year 2009 to \$10 million for fiscal year 2010.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### FINANCIAL STATEMENTS

The Division of State Lottery's financial statements include statements of net assets as of June 30, 2010 and 2009, statements of revenues, expenses and changes in net assets for the years ended June 30, 2010 and 2009, and statements of cash flows for the years ended June 30, 2010 and 2009. The financial statements are prepared in accordance with the accounting principles established by the Governmental Accounting Standards Board.

#### Statements of Net Assets

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

	June 30,	
	2010	2009
Current Assets	\$ 319	\$ 322
Deposit Fund Contracts	403	481
Total Assets	722	803
Current Liabilities	308	312
Non-Current Liabilities	404	482
Total Liabilities	712	794
Restricted Net Assets	6	6
Unrestricted Net Assets	4	3
Total Net Assets	\$ 10	\$ 9

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 \$154 million and \$157 million at June 30, 2010 and 2009, 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 \$527 million and \$612 million as of June 30, 2010 and 2009, 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 \$41 million and \$40 million at June 30, 2010 and 2009, respectively. The annuity prizes due beyond fiscal year 2011 total \$403 million and represents the non-current assets reported on the Division of State Lottery's statements of net assets.

Current liabilities consist of unpaid prize awards, accounts payable and outstanding contributions due to the State of New Jersey General Fund. The total unpaid prizes due and payable totaled \$71 million and \$61 million as of June 30, 2010 and 2009, respectively. Also, \$124 million was due to annuity winners as of June 30, 2010.

Non-current liabilities represent annuity prize awards due beyond 2011 and also include the total due for unused vacation and sick leave.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### FINANCIAL STATEMENTS (CONTINUED)

#### Statements of Net Assets (Continued)

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

	June 30,	
	2010	2009
Restricted (Unclaimed Prize Reserves)	\$ 6	\$ 6
Unrestricted	4	3
Total Net Assets	\$ 10	\$ 9

Expired prizes, or unclaimed prize reserves, are restricted to fund either future prizes or state contributions.

#### Statements of Revenues, Expenses and Changes in Net Assets

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

	Year Ended June 30,	
	2010	2009
Operating revenues		
Ticket sales	\$ 2,605	\$ 2,503
Forfeited prizes	42	34
Miscellaneous income	1	1
Total operating revenue	2,648	2,538
Operating expenses		
Prize expenses	1,512	1,455
Bad debt expense	-	1
Administration expense	18	22
Retailer commissions	145	139
Vendor fees	43	42
Networking fees	4	8
Drawing broadcast fees	1	1
Total operating expenses	1,723	1,668
Operating income	925	870
Investment income	1	3
Income before transfers	926	873
Operating transfers - state contributions	924	887
Increase/(decrease) in net assets	\$ 2	\$ (14)

The Division of State Lottery awarded over \$1,512 billion in prize awards in fiscal year 2010 and over \$1.455 billion in fiscal year 2009. Almost 111 million winning tickets were validated and paid in fiscal year 2010 and over 106 million were validated and paid in fiscal year 2009.

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 \$48 million in fiscal year 2010 and \$50 million in fiscal year 2009. Drawing broadcast fees were approximately \$1 million for both years ended June 30, 2010 and 2009, respectively.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### FINANCIAL STATEMENTS (CONTINUED)

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

The Division of State Lottery's administrative expenses for the fiscal years 2010 and 2009 totaled \$18 million and \$22 million, respectively. These administrative expenses include salaries, advertising, auditing services, rent, security, data processing services, office supplies and attorney general fees.

The Division of State Lottery is required by State of New Jersey law to contribute at least 30% of gross revenues from ticket sales to the State of New Jersey Treasury for state aid for education and state institutions. As a result of various sales initiatives, game enhancements, and efficient operations, the Division of State Lottery contributed \$924 million, 35% of total revenues, in fiscal year 2010 and \$887 million, 33% of total revenues, in fiscal year 2009. The majority of the increase in contributions to the State is attributed to higher jackpots for Mega Millions and Jersey Cash 5, the addition of Powerball in February 2010 and an increase in sales of instant games.

#### Statements of Cash Flows

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

	Year Ended June 30,	
	2010	2009
Cash flows provided by operating activities	\$ 932	\$ 874
Cash flows used in non-capital financing activities	(935)	(867)
Cash flows used in investing activities	4	(6)
Net increase (decrease) in cash	<u>\$ 1</u>	<u>\$ 1</u>

### SUMMARY AND OUTLOOK

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

The management of Division of State Lottery 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:

- Pick 4 "Red Ball" Double Draw
- Various instant games
- VIP club
- The addition of "Powerball"

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.

### CONTACTING THE DIVISION'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, investors and creditors with a general overview of the Division's finances. If you have any questions about this report or need additional financial information, contact the Division's Deputy Director of Finance at One Lawrence Park Complex, 1333 Brunswick Pike, PO Box 041, Lawrenceville, New Jersey 08625-0041.

**NEW JERSEY DIVISION OF STATE LOTTERY**

**STATEMENTS OF NET ASSETS**

	June 30,	
	2010	2009
<b>ASSETS</b>		
Current Assets		
Cash	\$ 617,648	\$ 404,940
Accounts receivable, net of allowance for doubtful accounts of \$2,450,000 in 2010 and 2009	25,475,922	22,133,328
Deferred Expenses	15,399,765	11,485,547
Investments		
Deposit Fund Contracts	124,019,004	130,630,005
State of New Jersey Cash Management Fund	<u>153,563,268</u>	<u>156,822,798</u>
Total current assets	319,075,607	321,476,618
Non-Current Assets		
Investments - deposit fund contracts	<u>402,824,222</u>	<u>481,049,232</u>
Total non-current assets	<u>402,824,222</u>	<u>481,049,232</u>
Total assets	<u><u>\$ 721,899,829</u></u>	<u><u>\$ 802,525,850</u></u>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 20,290,847	\$ 16,283,548
Obligation for unpaid prize awards	70,535,872	60,654,399
Installment prize awards	124,019,004	130,630,005
Due to State of New Jersey - education and state institutions	<u>93,009,031</u>	<u>104,208,916</u>
Total current liabilities	<u>307,854,754</u>	<u>311,776,868</u>
Non-Current Liabilities		
Compensated absences	989,444	1,143,759
Installment prize awards	<u>402,824,222</u>	<u>481,049,232</u>
Total non-current liabilities	<u>403,813,666</u>	<u>482,192,991</u>
Total liabilities	<u>711,668,420</u>	<u>793,969,859</u>
<b>NET ASSETS</b>		
Restricted for prize awards or contributions for aid to education and state institutions	6,074,201	5,733,666
Unrestricted	<u>4,157,208</u>	<u>2,822,325</u>
Total net assets	<u><u>\$ 10,231,409</u></u>	<u><u>\$ 8,555,991</u></u>

See accompanying notes to financial statements.

## NEW JERSEY DIVISION OF STATE LOTTERY

### STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Year ended June 30,	
	2010	2009
Operating revenues		
Ticket Sales		
Pick 3	\$ 435,271,947	\$ 448,174,837
Pick 4	264,132,894	265,453,675
Jersey Cash 5	143,977,454	138,973,214
Pick 6 Lotto	81,916,339	90,169,336
Mega Millions	307,096,483	282,504,403
Powerball	71,215,958	-
Raffle sales	-	7,457,060
Instant games	1,301,493,067	1,270,533,859
Total ticket sales	2,605,104,142	2,503,266,384
Other revenues		
Forfeited prizes	42,223,139	33,948,673
Miscellaneous	1,000,343	899,823
Total operating revenues	2,648,327,624	2,538,114,880
Operating expenses		
Prize expenses	1,511,914,428	1,455,242,612
Amortization expense	51,660	46,491
Bad debt expense	-	600,000
Administrative expenses	18,052,156	21,594,245
Retailer commissions	144,890,988	139,486,773
Online vendor fees	25,447,918	25,119,355
Instant vendor fees	17,362,734	16,430,631
Multi-state fees	21,140	24,021
Online network fees	4,402,944	7,554,455
Drawing broadcast fees	1,074,677	1,141,677
Total operating expenses	1,723,218,645	1,667,240,260
Operating income	925,108,979	870,874,620
Non-operating revenue		
Interest	575,470	2,528,987
Income before transfers out	925,684,449	873,403,607
Transfers out - contributions for state aid to education and state institutions	924,009,031	887,208,916
Change in net assets	1,675,418	(13,805,309)
Net assets, beginning of year	8,555,991	22,361,300
Net assets, end of year	\$ 10,231,409	\$ 8,555,991

See accompanying notes to financial statements.

**NEW JERSEY DIVISION OF STATE LOTTERY**

**STATEMENTS OF CASH FLOWS**

	Year ended June 30,	
	2010	2009
Cash Flows from Operating Activities		
Sales to customers	\$ 1,323,081,283	\$ 1,245,197,013
Payments for prize awards	(350,600,578)	(319,845,190)
Payments for vendor commissions and fees	(48,109,278)	(51,570,153)
Payments to suppliers	(21,177,037)	(22,767,365)
Other payments	(22,826)	(95,956)
Cash flows from annuity operations		
Annuity receipts	123,663,004	130,749,004
Purchases of annuities	(2,745,087)	(10,441,175)
Payments of annuity prizes	(92,502,858)	(97,532,291)
Net cash provided by operating activities	931,586,623	873,693,887
Cash Flows used in Non-Capital Financing Activities		
Contributions for aid to education and state institutions	(935,208,916)	(867,058,235)
Cash Flows from Investment Activities		
Cash Management Fund proceeds	1,340,635,000	1,270,944,000
Cash Management Fund purchases	(1,336,800,000)	(1,277,270,000)
Net cash provided by (used in) investing activities	3,835,000	(6,326,000)
Net increase in cash	212,708	309,652
Cash, beginning of year	404,940	95,288
Cash, end of year	\$ 617,648	\$ 404,940
Reconciliation of operating income to net cash provided by operating activities		
Operating Income	\$ 925,108,979	\$ 870,874,620
Changes in assets and liabilities		
Accounts receivable	(3,342,594)	(7,200,984)
Investments - deposit fund contracts	84,836,011	52,059,611
Other assets	(3,914,218)	65,982
Accounts payable and accrued expenses	4,007,298	(2,208,290)
Obligation for unpaid prize awards	(74,954,538)	(40,011,878)
Compensating absences	(154,315)	114,826
Net cash provided by operating activities	\$ 931,586,623	\$ 873,693,887

# NEW JERSEY DIVISION OF STATE LOTTERY

## NOTES TO FINANCIAL STATEMENTS

### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Reporting Entity**

The New Jersey 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.

In its accounting and financial reporting, the Division follows the pronouncements of the Governmental Accounting Standards Board (“GASB”) and other entities that promulgate accounting principles. Per GASB Statement 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, priority is established as to which source of accounting principles to utilize in determining proper accounting treatment. The hierarchy is as follows: GASB Statements and Interpretations; GASB Technical Bulletins; American Institute of Certified Public Accountants (“AICPA”) Industry Audit and Accounting Guides and AICPA Statements of Position, if applicable, and cleared by GASB; AICPA Practice Bulletins, if applicable, and cleared by GASB; Implementation Guides published by the GASB; AICPA pronouncements that are not specially applicable to state and governmental entities; Financial Accounting Standards Board (“FASB”) Statements and Interpretations; and Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee of Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Governmental Accounting Standards Board (“GASB”) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental 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.

#### **Use of Estimates**

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

#### **State of New Jersey Cash Management Fund**

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

# NEW JERSEY DIVISION OF STATE LOTTERY

## NOTES TO FINANCIAL STATEMENTS

### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **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.

#### **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 having minimum acceptable ratings from at least two of three private rating companies. The rating companies and the minimal acceptable ratings are the following; Standard and Poor's financial strength rating of "AA", A.M. Best financial strength rating of "A", and Moody's financial strength rating of "Aa2". 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. These annuities are presented on the statement of net assets as deposit fund contracts, carried at contract value which approximates fair value.

#### **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. As of June 30, 2010 and 2009, leasehold improvements were \$357,474 and \$357,474, respectively. For the years ended June 30, 2010 and 2009, amortization expense was \$51,660 and \$46,491, respectively.

#### **Net Assets**

##### **Restricted**

Amounts restricted for prize awards or contributions for aid to education and state institutions consist of prizes that are not claimed within one year from the date of the drawing for machine games and within one year from the date of game's closing for instant games.

##### **Unrestricted**

The unrestricted net assets represent resources available for current operating expenses in compliance with legal and budgetary restrictions.

# NEW JERSEY DIVISION OF STATE LOTTERY

## NOTES TO FINANCIAL STATEMENTS

### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 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,” “Powerball” 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.

#### 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. Effective November 21, 1991, the Commission authorized that seventy percent 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% goes directly to contributions to aid education and institutions to be consistent with the 30% minimum contribution requirement of the State Lottery Law. Forfeited prizes are recognized as “Other Revenues” during the period forfeited. For the years ended June 30, 2010 and 2009, forfeited prizes were \$42,223,139 and \$33,948,673, respectively.

#### Contributions and Prize Awards

The State Lottery Law requires no less than 30% of total revenues accruing 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, 2010 and 2009, aggregated \$924,009,031 and \$887,208,916, respectively, of which \$93,009,031 and \$104,208,916 was due to the State Treasury at June 30, 2010 and 2009, 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.

#### 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.

NEW JERSEY DIVISION OF STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**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 from the State of New Jersey's General Fund. 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. Advertising expense included in administrative expense amounted to \$7,038,893 and \$10,230,662 for the years ended June 30, 2010 and 2009, respectively.

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, 2010 and 2009. The Division's deposits with Wachovia are insured by the Federal Deposit Insurance Corporation up to \$250,000.

	June 30,	
	2010	2009
Wachovia	\$ 617,648	\$ 404,940
New Jersey Cash Management Fund	153,563,268	156,822,798
Total	<u>\$ 154,180,916</u>	<u>\$ 157,227,738</u>

The New Jersey Cash Management Fund is a common trust fund administered by the 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, Mega Millions and Powerball. An annuity contract represents an obligation by an insurance company to provide a fixed series of payments over a specified period.

U.S. government securities are carried at fair value. At June 30, 2010 and 2009, the Division held U.S. government securities totaling \$41,081,902 and \$40,240,140, respectively, which are included in investments - deposit fund contracts.

# NEW JERSEY DIVISION OF STATE LOTTERY

## NOTES TO FINANCIAL STATEMENTS

### C. FUTURE INSTALLMENT PRIZE AWARDS (CONTINUED)

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 having minimum acceptable ratings from at least two of three private rating companies. The rating companies and the minimal acceptable ratings are the following; Standard and Poor's financial strength rating of "AA", A.M. Best financial strength rating of "A", and Moody's financial strength rating of "Aa2". However, due to the long-term nature of these contracts, the credit quality of the issuer is subject to change. As of June 30, 2010, nine companies with annuity contracts totaling approximately \$251,180,381 had ratings below those minimally acceptable for new purchases. At June 30, 2010 and 2009, the Division held insurance company annuity contracts totaling \$485,761,324 and \$571,439,097, respectively, issued through twelve insurance companies, which are due in installments ranging from ten years to the lifetime of the recipient. The estimated fair value of annuity contracts approximates the carrying value reflected in the accompanying statements of net assets at June 30, 2010 and 2009.

#### Concentrations of Credit Risk

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

A significant portion (in excess of 5% of total) of the Division's investment in annuity contracts at such date is invested with each of the following five companies:

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

### 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.

# NEW JERSEY DIVISION OF STATE LOTTERY

## NOTES TO FINANCIAL STATEMENTS

### 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 which expires October 1, 2017.

#### Operating Leases

The Division of State Lottery leases certain office facilities under non-cancelable operating lease agreements expiring through fiscal year 2017.

Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2011	\$ 800,458
2012	802,871
2013	814,933
2014	429,904
2015	154,883
2016	154,883
2017	129,069
	<u>\$ 3,287,001</u>

Rent expense for office facilities at June 30, 2010 and 2009, was \$1,081,213 and \$861,719, respectively.

### F. SUBSEQUENT EVENTS

Management has evaluated subsequent events that occurred after the balance sheet date but before October 20, 2010, the date the financial statements were available to be issued. Following items were determined by management to require disclosure:

On October 3, 2010 the Lottery converted to a new state of the art central processing system supplied by GTECH Corporation. The conversion ends a process begun over a year ago that replaced all gaming hardware and software. This included new retailer terminals and associated equipment, instant ticket vending machines, games management, instant ticket inventory management, retailer accounting, new reporting software, an instant ticket warehouse (including distribution), a new communications network (primarily satellite) a business continuity site and other systems.

### G. ROUNDING

Some schedules in the financial statements may have dollar differences due to rounding adjustments.

## **SUPPLEMENTARY INFORMATION**

**NEW JERSEY DIVISION OF STATE LOTTERY**

**SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - BUDGET  
AND ACTUAL**

Year ended June 30, 2010

	<u>Budget</u> <u>(unaudited)</u>	<u>Actual</u>	Variance (unfavorable) favorable
Operating revenues			
Ticket Sales			
Pick 3	\$ 448,812,000	\$ 435,271,947	\$ (13,540,053)
Pick 4	265,356,000	264,132,894	(1,223,106)
Jersey Cash 5	123,822,000	143,977,454	20,155,454
Pick 6 Lotto	69,810,000	81,916,339	12,106,339
Mega Millions	263,898,000	307,096,483	43,198,483
Powerball	96,148,000	71,215,958	(24,932,042)
Instant games	1,299,400,000	1,301,493,067	2,093,067
Sales discounts	<u>(1,000,000)</u>	<u>-</u>	<u>1,000,000</u>
Total ticket sales	2,566,246,000	2,605,104,142	38,858,142
Other income			
Forfeited prizes	32,373,000	42,223,139	9,850,139
Miscellaneous	<u>1,200,000</u>	<u>1,000,343</u>	<u>(199,657)</u>
Total operating revenues	<u>2,599,819,000</u>	<u>2,648,327,624</u>	<u>48,508,624</u>
Operating expenses			
Prize expenses	1,473,819,600	1,511,914,428	38,094,828
Amortization expense	40,000	51,660	11,660
Bad debt expense	-	-	-
Administration expenses	26,639,000	18,052,156	(8,586,844)
Retailer commissions	141,198,530	144,890,988	3,692,458
Online vendor fees	24,986,177	25,447,918	461,741
Instant vendor fees	18,321,540	17,362,734	(958,806)
Multi-state fees	50,000	21,140	(28,860)
Online network fees	2,738,382	4,402,944	1,664,562
Drawing broadcast fees	<u>1,340,000</u>	<u>1,074,677</u>	<u>(265,323)</u>
Total operating expenses	<u>1,689,133,229</u>	<u>1,723,218,645</u>	<u>34,085,416</u>
Operating income	910,685,771	925,108,979	14,423,208
Non-operating revenue			
Interest	<u>2,528,987</u>	<u>575,470</u>	<u>(1,953,517)</u>
Income before transfers out	913,214,758	925,684,449	12,469,691
Contributions for state aid to education and state institutions	<u>913,800,000</u>	<u>924,009,031</u>	<u>10,209,031</u>
Change in net assets	(585,242)	1,675,418	2,260,660
Net assets, beginning of year	<u>8,555,991</u>	<u>8,555,991</u>	<u>-</u>
Net assets, end of year	<u>\$ 7,970,749</u>	<u>\$ 10,231,409</u>	<u>\$ 2,260,660</u>

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

SCHEDULES OF INSTANT GAME REVENUES

	Year Ended June 30,	
	2010	2009
CROSSWORD (AW)	\$ 43,120,368	\$ -
CROSSWORD (AU)	42,384,558	318,600
CROSSWORD (AV)	42,089,994	-
CROSSWORD (AX)	41,521,746	-
BIG MONEY SPECTACULAR (AD)	36,090,838	214,800
BIG MONEY SPECTACULAR (AE)	35,354,252	-
BIG MONEY SPECTACULAR (AG)	34,326,376	-
BIG MONEY SPECTACULAR (AF)	33,633,420	-
BIG MONEY SPECTACULAR (AH)	33,060,876	-
CROSSWORD (AY)	23,573,769	-
SUPER CROSSWORD (U)	21,593,510	-
BINGO ZONE (E)	21,540,730	630,900
SUPER CROSSWORD (S)	21,381,525	-
SUPER CROSSWORD (T)	20,654,300	-
SUPER CROSSWORD (V)	20,586,335	-
CHAMPIONSHIP POKER 4TH ED	20,077,485	-
SUPER CROSSWORD (W)	18,907,380	-
POKER TOURNEY	18,802,790	-
BUNDLE OF GREEN	18,783,565	-
HOLIDAY CROSSWORD	17,885,949	-
BINGO TIMES 10	16,919,145	2,988,720
CLASSIC BINGO (A)	16,059,354	-
LUCKY LINES	16,027,392	-
TRIPLING GREEN BINGO	15,509,052	-
WIN FOR LIFE (A11)	15,037,641	1,673,502
BLACK CHERRY TRIPLER	14,890,581	-
EXTREME RICHES	14,855,700	-
X-TREME WINNINGS	14,383,104	705,300
WIN FOR LIFE (A12)	14,362,017	-
EXTRA SPIN SLINGO	14,143,473	-
POKER NIGHT	14,075,110	5,650,125
BUCKS DELUXE	13,977,330	-
CASINO ROYALE	13,462,830	-
BIG MONEY SPECTACULAR (AI)	13,042,740	-
DEUCES WILD	12,630,080	-
RUBY RED 7'S	11,797,292	-
SUPER CROSSWORD (R)	11,726,900	8,366,675

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

SCHEDULES OF INSTANT GAME REVENUES

	Year Ended June 30,	
	2010	2009
BINGO TIMES 10 (C)	\$ 11,674,150	\$ -
\$500 FRENZY	11,629,410	-
HOLIDAY LUCKY TIMES 10	11,594,222	-
CHAMPIONSHIP POKER 5TH ED.	11,551,725	-
SUPER SUM	11,041,186	-
GOLDEN WISHES	11,004,860	-
HOT STREAK	10,851,660	-
SILVER BELL BINGO	10,729,701	-
MONEY MULTIPLIER	10,673,250	-
GOLD STRIKE	10,589,212	-
\$50 FALL FEST	10,243,508	-
SPRING \$50S	10,010,800	-
BLAZIN' HOT BUCKS	9,980,628	815,400
\$100 SNOWFALL	9,956,200	-
BLACKJACK BONUS	9,625,200	-
KISSES & CASH	9,566,918	-
SHAMROCK TRIPLER	9,053,250	-
IT'S A WONDERFUL LIFE. . . FOR LIFE	8,953,525	15,928,015
GIANTS FOOTBALL FANTASY	8,741,880	-
JETS FOOTBALL FANTASY	8,571,740	-
ACES HIGH	8,488,050	11,094,945
BINGO CONNECT	8,326,925	-
BLACKOUT BINGO	8,123,136	-
\$500 CELEBRATION	8,034,210	-
DOUBLE IT (B)	8,023,837	65,153
BIRTHDAY DAY WISHES (E)	7,527,324	2,361,394
SILVER & GOLD	7,501,055	11,799,740
BIRTHDAY WISHES (E)	7,246,182	-
CLUB CASINO	7,139,150	6,178,460
SINATRA	6,962,240	-
LUCKY 7'S DOUBLER	6,869,084	-
CASINO 7s	6,819,970	-
THE WIZARD OF OZ	6,729,506	-
SUPER CASH BLAST	6,692,480	-
CROSSWORD (AT)	6,478,512	36,686,169
\$1,000,000 EXTRAVAGANZA	6,376,260	16,221,960
RED HOT & BLUE 7'S	6,355,060	2,917,838

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

SCHEDULES OF INSTANT GAME REVENUES

	Year Ended June 30,	
	2010	2009
PINK PANTHER	\$ 6,269,168	\$ 1,113,418
LUCKY TIMES 10	5,894,736	5,693,038
DOUBLE BLACKJACK	5,802,460	12,873,500
BIG MONEY SPECTACULAR (AC)	5,795,992	29,867,652
HOLIDAY CHEERS	5,503,820	-
BINGO MONEY BALL	5,411,076	10,549,398
TAIL GATOR	5,393,341	-
KICKOFF CASH	5,359,085	-
PAC MAN CASH	5,307,270	3,615,018
SUPER CROSSWORD (X)	5,224,800	-
MATRI-MONEY	5,146,787	201,300
LUCKY GIFT	5,067,095	13,061,335
ZODIAC MATCH	5,034,516	-
MONEY BAG SLINGO	4,921,215	12,922,860
TRIPLE TREAT	4,791,869	-
SUMMER FUN	4,606,760	1,093,075
\$100 WINDFALL	4,300,428	6,762,740
HEARTS ARE WILDS	3,797,102	6,428,066
BIG LEAGUE BASEBALL	3,791,365	-
YOGI BERRA CASH CATCHER	3,781,150	4,106,852
ELVIS	3,396,522	-
SUPER PAYDAY	3,323,740	14,399,450
SUPER CASHOUT	3,147,336	10,406,160
MONEY, MONEY, MONEY	3,125,680	-
KING OF CLUBS	3,068,600	13,133,370
MOTHER'S DAY	3,011,605	-
STAR SPANGLED 7S	2,947,888	-
SUPER SUMMER DOUBLER	2,938,202	-
TRIPLE PLAY	2,876,721	-
JOKER'S WILD	2,692,539	5,120,217
CLOVERS AND CASH TRIPLER	2,671,046	7,516,630
FATHER'S DAY	2,581,436	2,109,077
LUCKY HEARTS	2,323,200	8,391,696
BINGO ZONE (D)	2,248,952	19,817,702
DEAL OR NO DEAL	2,050,968	21,079,455
FATHER'S DAY	1,791,765	-
\$500 FLURRY	1,625,960	10,604,714

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

SCHEDULES OF INSTANT GAME REVENUES

	Year Ended June 30,	
	2010	2009
MOTHER'S DAY	\$ 1,414,194	\$ 3,946,479
ZODIAC	1,350,036	8,979,604
DOUBLE IT	1,326,199	10,466,226
SUNNY \$50S	1,131,000	-
COLD HARD CASH	1,113,600	-
SUPER CROSSWORD (Q)	1,103,945	19,895,365
MATRI-MONEY (B)	1,096,369	-
WIN FOR LIFE (A10)	1,070,151	15,635,052
HARLEY DAVIDSON	1,038,874	7,721,886
FLOWERING 50'S	1,017,846	9,785,000
DIAMOND 7'S	528,270	10,909,192
BEAT THE HEAT	525,280	16,471,395
\$250,000 ULTIMATE BLACKJACK (2ND ED)	517,540	7,658,730
NEW JERSEY HOLD'EM POKER	347,360	19,533,185
CASINO NIGHT	346,590	14,556,030
THE THREE STOOGES	330,134	6,512,628
CROSSWORD (AS)	262,989	41,983,564
JOKER'S WILD	246,970	9,927,240
WIN FOR LIFE (A13)	237,300	-
I LOVE DOGS/ I LOVE CATS	213,948	7,391,236
LUCKY LINES	177,246	15,637,983
BIG MONEY SPECTACULAR (AB)	126,188	37,083,956
SOME LIKE IT HOT	115,890	9,123,916
BIRTHDAY WISHES (D)	107,694	10,072,536
SUPER CROSSWORD (P)	94,485	20,867,035
BINGO TIMES 10	82,940	18,466,255
SUNNY MONEY	80,466	8,061,350
SHAKE THEM BONES	79,089	5,408,345
HOLIDAY LUCKY TIMES 10	76,488	12,182,586
COLD CASH	61,669	5,677,834
FORD ESCAPE HYBRID	56,688	5,390,318
CANDY CANE CROSSWORD	53,985	20,822,649
\$1,000,000 FORTUNE	33,460	9,449,220
FATHER'S DAY	22,354	3,300,053
RAISE THE STAKES	21,760	11,004,540
LUCKY SPIN	18,860	12,584,870
BINGO ZONE	14,686	21,802,348

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

SCHEDULES OF INSTANT GAME REVENUES

	Year Ended June 30,	
	2010	2009
\$500 FURY	\$ 12,000	\$ 12,119,484
LUCKY MATCH	11,326	5,172,568
LET IT ROLL	11,264	10,906,232
EMERALD'S 7'S	11,130	12,189,658
SUPER TIC TAC TOE	10,923	14,663,151
JINGLE BELL BINGO	10,749	7,872,726
CROSSWORD (AR)	6,294	42,090,822
SUPER CROSSWORD (O)	5,415	21,789,795
MATRIMONEY (B)	5,400	2,425,524
HOLIDAY GIFT PACK	5,400	3,574,315
BIG MONEY SPECTACULAR (AA)	3,600	35,603,394
BIG MONEY SPECTACULAR (Z)	300	35,747,788
TIC TAC WILD	(34)	300,528
BIG MONEY SPECTACULAR (W)	(118)	238,178
CHAMPIONSHIP POKER (3RD ED)	(160)	1,986,665
TREASURE HUNT	(300)	141,418
\$250,000 ULTIMATE BLACKJACK	(300)	143,620
CASINO MULTIPLIER	(300)	46,200
NEW JERSEY POKER	(300)	339,185
WIN FOR LIFE (A8)	(300)	736,017
BINGO ZONE (B)	(300)	2,434,826
HOLIDAY TREASURES	(300)	544,035
GOLD DUST	(300)	1,866,900
BETTY BOOP	(300)	1,460,184
CASH TRIPLER	(300)	670,407
CROSSWORD (AP)	(300)	35,995,905
BIG MONEY SPECTACULAR (X)	(300)	2,696,592
BIG MONEY SPECTACULAR (Y)	(300)	21,768,454
GREAT GOLDEN 8'S	(302)	6,410,010
CREEPY CRAWLY CASH	(598)	117,702
JACK FROST	(600)	83,210
SUDOKU	(600)	1,008,120
FOOTBALL BLITZ	(600)	476,806
JACK OF SPADES	(600)	183,950
MAGNIFICENT 7'S	(600)	96,566
DREAMS OF GOLD	(600)	213,415
WINNING LINE BINGO	(600)	2,013,957

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

SCHEDULES OF INSTANT GAME REVENUES

	Year Ended June 30,	
	2010	2009
GOT LUCK?	\$ (600)	\$ 1,189,954
SILVER COINS	(600)	4,421,810
RED HOT SLINGO	(600)	5,543,796
SUPER CROSSWORD (M)	(600)	16,879,195
FLAMINGO BINGO DOUBLER	(603)	10,156,302
BIRTHDAY WISHES (C)	(900)	757,236
SAPPHIRE BLUE 7'S	(900)	92,676
SUPER CROSSWORD (N)	(900)	21,294,080
SUPER DUPER DOUBLER (C)	(1,010)	4,784,527
CASH GARDEN TRIPLER	(1,120)	3,973,330
7TH INNING STRETCH	(1,178)	5,599,102
CROSSWORD (AQ)	(1,200)	43,009,806
BIG BLACKOUT BINGO	(1,500)	6,231,650
CODE QUEST	(1,515)	2,500,452
LUCKY TIMES 10	(1,892)	12,110,688
POKER SHOWDOWN	(2,100)	23,722,410
STAR SPANGLED DOUBLER	(2,420)	1,473,068
WHEEL OF FORTUNE (2008)	(2,902)	3,980,274
WIN FOR LIFE (A9)	(2,952)	12,823,038
LUCKY STAR DOUBLER	(3,300)	7,082,620
PRIOR YEAR GAME	(32,881)	(22,619)
CARNIVAL CASH	-	(5)
BIRTHDAY WISHES (B)	-	(300)
LUCKY DICE MULTIPLIER	-	600
LIBERTY BILLS	-	7,214
SHORE EXCITEMENT	-	10,532
CONGRATULATIONS (C) ORANGE	-	5,272
INSTANT BINGO (E)	-	(600)
PINBALL WIZARD (B)	-	(1,500)
MONOPOLY (2006)	-	(4)
MUSTANG MONEY	-	(600)
CARIBBEAN CRUISE POKER	-	(2,400)
PIRATE'S GOLD	-	15,208
LUNAR BINGO	-	(600)
STOCKING STUFFER (B)	-	(300)
FIELD & STREAM	-	(1,644)
DOMINOES (B)	-	11,364

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

SCHEDULES OF INSTANT GAME REVENUES

	Year Ended June 30,	
	2010	2009
NEW YEAR COUNTDOWN	\$ -	\$ (300)
LAUREL & HARDY	-	(1,612)
\$150,000 BINGO BONANZA	-	(600)
FANTASTIC 5'S	-	(600)
SIZZLING SMACKERS	-	255,456
DEAL OR NO DEAL	-	(600)
SUPER DUPER DOUBLER (B)	-	7,971
CROSSWORD (AI)	-	(6)
CHAMPIONSHIP POKER 2ND EDITION	-	(300)
FLOWERING 50'S	-	(418)
GOLD RUSH	-	(300)
DOUBLING GREEN BINGO	-	(450)
LUCKY SHAMROCKS	-	(604)
SPADE INVADERS	-	(1,552)
KITTY CASH/DOGGY DOUGH	-	29,930
SILVER 7'S	-	(600)
MOTHER'S DAY WISHES	-	(624)
MAJOR LEAGUE BASEBALL WINNINGS	-	(1,200)
CASHINO	-	(305)
LUCKY SIGNS	-	7,286
WILD TIME GOLD	-	4,158
THE DUKE	-	(3,436)
FATHER'S DAY	-	(737)
MILLION DOLLAR DOUBLER	-	(300)
SLINGO	-	56,595
ADVENTURES OF A LIFETIME	-	262,148
SUPER CROSSWORD (H)	-	(300)
BIG MONEY SPECTACULAR (R)	-	(300)
WIN FOR LIFE (AH)	-	9,297
SUPER 7'S BINGO	-	103,185
CROSSWORD (AK)	-	300
BREEDERS' CUP GOLD	-	26,974
HIGH STAKES POKER	-	12,280
50'S FEVER	-	43,120
SUPER MATCH 3	-	77,306
DEEP SEA DOLLARS	-	127,296
CROSSWORD (AL)	-	4,200

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

SCHEDULES OF INSTANT GAME REVENUES

	Year Ended June 30,	
	2010	2009
SUPER CROSSWORD (I)	\$ -	\$ 3,600
BIG MONEY SPECTACULAR	-	(300)
AUTUMN GOLD	-	175,044
LUCKY NUMBERS	-	(6,855)
MARILYN MONROE	-	403,650
\$1,000,000 EXPLOSION	-	46,320
DEAL OR NO DEAL	-	94,010
BINGO ZONE	-	9,848
CROSSWORD (AM)	-	5,250
SUPER CROSSWORD (J)	-	9,515
BIG MONEY SPECTACULAR (T)	-	900
CROSSWORD (AN)	-	141,000
BIG MONEY SPECTACULAR (U)	-	3,600
HOLIDAY LUCKY TIMES 10	-	50,078
LUCKY DUCK DOUBLER	-	71,039
HEARTS OF GOLD	-	422,210
HIGH ROLLERS	-	2,842,875
MONOPOLY (2008)	-	2,396,078
SUPER CROSSWORD (K)	-	100,500
BIG MONEY SPECTACULAR (V)	-	24,700
CROSSWORD (AO)	-	2,369,982
MOTHER'S DAY	-	1,325,748
SUPER CROSSWORD (L)	-	1,465,745
	<u>\$ 1,301,493,067</u>	<u>\$ 1,270,533,859</u>

**NEW JERSEY DIVISION OF STATE LOTTERY**

**SCHEDULES OF ADMINISTRATIVE EXPENSES**

	<u>Year ended June 30,</u>	
	<u>2010</u>	<u>2009</u>
Salaries	\$ 8,172,997	\$ 8,706,769
Printing and office supplies	222,321	251,090
Vehicular supplies	329	536
Household and clothing	269	1,140
Other supplies	890	-
Travel	179,809	193,009
Telephone	103,139	110,547
Postage	90,000	90,000
Data processing	396,077	361,592
Household and security	238,410	226,285
Professional services	387,922	385,987
Advertising	7,038,893	10,230,662
Maintenance - building and grounds	17,640	-
Maintenance - office equipment	16,792	5,019
Maintenance - vehicles	71	4,085
Rent - building and grounds	1,081,213	861,719
Rent - central motor pool	87,406	94,107
Rent - other	4,268	3,209
Vehicular equipment	-	43,036
Information processing equipment	13,432	22,838
Other equipment	<u>278</u>	<u>2,615</u>
Total administrative expenses	<u>\$18,052,156</u>	<u>\$21,594,245</u>

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the accompanying financial statements of the New Jersey Division of State Lottery (the "Division of State Lottery") as of and for the year ended June 30, 2010, and have issued our report thereon dated October 20, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. We did identify a control deficiency that we determined did not constitute a significant deficiency or material weakness and is referenced in a Statement on Auditing Standard 112 letter to management.

- AN INDEPENDENTLY OWNED MEMBER OF THE RSM MCGGLADREY NETWORK
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- NEW JERSEY SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS
- NEW YORK SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS
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- REGISTERED WITH THE PCAOB

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (CONTINUED)

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the New Jersey Department of the Treasury, and others within the Division of State Lottery and is not intended to be and should not be used by anyone other than these specified parties.

*Mercaderes, P.C.*  
*Certified Public Accountants*

October 20, 2010