

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

Financial Statements
and Supplementary Information

June 30, 2011 and 2010

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, 2011 and 2010. 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, 2011 and 2010, 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 reports dated October 18, 2011 and 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.

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INDEPENDENT AUDITORS' REPORT (CONTINUED)

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

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

Amercador, PC
Certified Public Accountants

October 18, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

The following discussion and analysis provides an analytical overview of the financial position and activities of the State of New Jersey, Department of Treasury, Division of State Lottery, (the "Division of State Lottery") for the years June 30, 2011 and 2010. 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 almost 6,200 agents 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 also responsible to provide communications between the sales terminals and the GTECH data centers.
- Pollard Bank Note, Scientific Games and GTECH Printing are contracted to print and support instant game products.

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 (including Jersey Cash 5 Instant Match)
- Pick 6 Lotto
- Mega Millions
- Powerball

FINANCIAL HIGHLIGHTS

The Division of State Lottery's financial position at June 30, 2011 and 2010, consisted of total assets of \$640 million and \$722 million, respectively, and total liabilities of \$629 million and \$712 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, 2011 and 2010, were \$446 million and \$527 million, respectively. Net assets increased from \$10 million in fiscal year 2010 to \$11 million for fiscal year 2011.

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, 2011 and 2010, statements of revenues, expenses and changes in net assets for the years ended June 30, 2011 and 2010, and statements of cash flows for the years ended June 30, 2011 and 2010. 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.	
	2011	2010
Current Assets	\$ 304	\$ 319
Deposit Fund Contracts	336	403
Total Assets	<u>640</u>	<u>722</u>
Current Liabilities	293	308
Non-Current Liabilities	336	404
Total Liabilities	<u>629</u>	<u>712</u>
Restricted Net Assets	7	6
Unrestricted Net Assets	4	4
Total Net Assets	<u>\$ 11</u>	<u>\$ 10</u>

Current assets consist of cash and investment in the State of New Jersey Cash Management Fund (the "NJCMF"), accounts receivable, current year annuity investments and prepaid expenses. The investment in the NJCMF totaled \$152 million and \$154 million at June 30, 2011 and 2010, respectively. The Division of State Lottery also holds Prudential stock with a market value of \$3 million at June 30, 2011.

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 \$446 million and \$527 million as of June 30, 2011 and 2010, respectively. The Division of State Lottery has annuity investments with ten (10) insurance companies. The total market value of the United States Treasury securities was \$40 million and \$41 million at June 30, 2011 and 2010, respectively. The annuity prizes due beyond fiscal year 2012 total \$335 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 \$69 million and \$71 million as of June 30, 2011 and 2010, respectively. Also, \$110 million was due to annuity winners as of June 30, 2011.

Non-current liabilities represent annuity prize awards due beyond 2012 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,	
	2011	2010
Restricted (Unclaimed Prize Reserves)	\$ 7	\$ 6
Unrestricted	4	4
Total Net Assets	<u>\$ 11</u>	<u>\$ 10</u>

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,	
	2011	2010
Operating revenues		
Ticket sales	\$ 2,637	\$ 2,605
Forfeited prizes	38	42
Miscellaneous income	2	1
Total operating revenue	<u>2,677</u>	<u>2,648</u>
Operating expenses		
Prize expenses	1,544	1,512
Bad debt expense	1	-
Administration expense	22	18
Retailer commissions	147	145
Vendor fees	33	43
Networking fees	(1)	4
Drawing broadcast fees	1	1
Total operating expenses	<u>1,747</u>	<u>1,723</u>
Operating income	930	925
Investment income	-	1
Income before transfers	930	926
Operating transfers - state contributions	930	924
Increase/(decrease) in net assets	<u>\$ -</u>	<u>\$ 2</u>

The Division of State Lottery awarded over \$1.543 billion in prize awards in fiscal year 2011 and over \$1.512 billion in fiscal year 2010. Almost 110 million winning tickets were validated and paid in fiscal year 2011 and over 111 million were validated and paid in fiscal year 2010.

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 \$32 million in fiscal year 2011 and \$48 million in fiscal year 2010. Drawing broadcast fees were approximately \$1 million for both years ended June 30, 2011 and 2010, 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 2011 and 2010 totaled \$22 million and \$18 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 \$930 million, 35% of total revenues, in fiscal year 2011 and \$924 million, 35% of total revenues, in fiscal year 2010.

Statements of Cash Flows

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

	<u>Year Ended June 30,</u>	
	<u>2011</u>	<u>2010</u>
Cash flows provided by operating activities	\$ 921	\$ 932
Cash flows used in non-capital financing activities	(923)	(935)
Cash flows used in investing activities	2	4
Net increase (decrease) in cash	<u>\$ -</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 3 "Green Ball" Double Draw
- Pick 4 "Red Ball" Double Up
- Various Instant Games, including new feature game \$100 million Dollar Spectacular
- Implemented new game feature for Mega Millions - Megaplier, started January 2011
- The addition of Jersey Cash 5 Instant Match started April 2011
- Various promotions of VIP Club to increase membership
- Started Million Dollar Replay second chance program for non-winning instant tickets, first drawing held June 2011
- Established social media presence on Facebook, Twitter and YouTube
- First U.S. Lottery to live stream mid-day and evening drawings on lottery website and Facebook.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

SUMMARY AND OUTLOOK (CONTINUED)

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 Avenue, PO Box 041, Lawrenceville, New Jersey 08625-0041.

NEW JERSEY DIVISION OF STATE LOTTERY

STATEMENTS OF NET ASSETS

		June 30.	
		2011	2010
ASSETS			
Current Assets			
Cash	\$	601,305	\$ 617,648
Accounts receivable, net of allowance for doubtful accounts of \$2,515,960 and \$2,450,000 in 2011 and 2010, respectively		28,096,451	25,475,922
Deferred Expenses		10,007,940	15,399,765
Investments			
Deposit Fund Contracts		110,302,504	124,019,004
Tradable Stock		3,203,283	-
State of New Jersey Cash Management Fund		152,215,577	153,563,268
Total current assets		304,427,060	319,075,607
Non-Current Assets			
Investments - deposit fund contracts		335,430,609	402,824,222
Total non-current assets		335,430,609	402,824,222
Total assets	\$	639,857,669	\$ 721,899,829
LIABILITIES			
Current Liabilities			
Accounts payable and accrued expenses	\$	13,731,178	\$ 20,290,847
Obligation for unpaid prize awards		68,505,050	70,535,872
Installment prize awards		110,302,504	124,019,004
Due to State of New Jersey - education and state institutions		100,000,111	93,009,031
Total current liabilities		292,538,843	307,854,754
Non-Current Liabilities			
Compensated absences		1,024,519	989,444
Installment prize awards		335,430,609	402,824,222
Total non-current liabilities		336,455,128	403,813,666
Total liabilities		628,993,971	711,668,420
NET ASSETS			
Restricted for prize awards or contributions for aid to education and state institutions		6,706,490	6,074,201
Unrestricted		4,157,208	4,157,208
Total net assets	\$	10,863,698	\$ 10,231,409

NEW JERSEY DIVISION OF STATE LOTTERY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	<u>Year ended June 30.</u>	
	<u>2011</u>	<u>2010</u>
Operating revenues		
Ticket Sales		
Pick 3	\$ 435,314,038	\$ 435,271,947
Pick 4	258,279,303	264,132,894
Jersey Cash 5	146,364,005	143,977,454
Pick 6 Lotto	68,530,737	81,916,339
Mega Millions	230,633,522	307,096,483
Powerball	132,782,891	71,215,958
Raffle sales	-	-
Instant games	<u>1,364,543,070</u>	<u>1,301,493,067</u>
Total ticket sales	2,636,447,566	2,605,104,142
Other revenues		
Forfeited prizes	38,453,261	42,223,139
Miscellaneous	<u>1,981,067</u>	<u>1,000,343</u>
Total operating revenues	<u>2,676,881,894</u>	<u>2,648,327,624</u>
Operating expenses		
Prize expenses	1,543,672,565	1,511,914,428
Amortization expense	51,660	51,660
Bad debt expense	650,000	-
Administrative expenses	22,322,459	18,052,156
Retailer commissions	146,973,605	144,890,988
Online vendor fees	17,901,509	25,447,918
Instant vendor fees	14,793,052	17,362,734
Multi-state fees	31,219	21,140
Online network fees	(855,684)	4,402,944
Drawing broadcast fees	<u>1,074,418</u>	<u>1,074,677</u>
Total operating expenses	<u>1,746,614,803</u>	<u>1,723,218,645</u>
Operating income	930,267,091	925,108,979
Non-operating revenue		
Interest	<u>365,309</u>	<u>575,470</u>
Income before transfers out	930,632,400	925,684,449
Transfers out - contributions for state aid to education and state institutions	<u>930,000,111</u>	<u>924,009,031</u>
Change in net assets	632,289	1,675,418
Net assets, beginning of year	<u>10,231,409</u>	<u>8,555,991</u>
Net assets, end of year	<u>\$ 10,863,698</u>	<u>\$ 10,231,409</u>

NEW JERSEY DIVISION OF STATE LOTTERY

STATEMENTS OF CASH FLOWS

	Year ended June 30.	
	2011	2010
Cash Flows from Operating Activities		
Sales to customers	\$ 1,296,367,920	\$ 1,323,081,283
Payments for prize awards	(353,411,947)	(350,600,578)
Payments for vendor commissions and fees	(35,599,402)	(48,109,278)
Payments to suppliers	(18,934,459)	(21,177,037)
Other payments	(16,579)	(22,826)
Cash flows from annuity operations		
Annuity receipts	110,381,004	123,663,004
Purchases of annuities	(2,463,693)	(2,745,087)
Payments of annuity prizes	(75,043,156)	(92,502,858)
Net cash provided by operating activities	921,279,688	931,586,623
Cash Flows used in Non-Capital Financing Activities		
Contributions for aid to education and state institutions	(923,009,031)	(935,208,916)
Cash Flows from Investment Activities		
Cash Management Fund proceeds	1,118,113,000	1,340,635,000
Cash Management Fund purchases	(1,116,400,000)	(1,336,800,000)
Net cash provided by investing activities	1,713,000	3,835,000
Net (decrease) increase in cash	(16,343)	212,708
Cash, beginning of year	617,648	404,940
Cash, end of year	\$ 601,305	\$ 617,648
Reconciliation of operating income to net cash provided by operating activities		
Operating Income	\$ 930,267,091	\$ 925,108,979
Changes in assets and liabilities		
Accounts receivable	(2,620,529)	(3,342,594)
Investments - deposit fund contracts	77,906,831	84,836,011
Other assets	5,391,824	(3,914,218)
Accounts payable and accrued expenses	(6,559,669)	4,007,298
Obligation for unpaid prize awards	(83,140,935)	(74,954,538)
Compensating absences	35,075	(154,315)
Net cash provided by operating activities	\$ 921,279,688	\$ 931,586,623

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, 2011 and 2010, leasehold improvements were \$357,474 and \$357,474, respectively. For the years ended June 30, 2011 and 2010, amortization expense was \$51,660.

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.

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 restricted 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, 2011 and 2010, forfeited prizes were \$38,453,261 and \$42,223,139, 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, 2011 and 2010, aggregated \$930,000,111 and \$924,009,031, respectively, of which \$100,000,111 and \$93,009,031 was due to the State Treasury at June 30, 2011 and 2010, 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 \$9,957,379 and \$7,038,893 for the years ended June 30, 2011 and 2010, 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, 2011 and 2010. The Division's deposits with Wachovia are insured by the Federal Deposit Insurance Corporation up to \$250,000.

	June 30,	
	2011	2010
Wachovia (Wells Fargo)	\$ 601,305	\$ 617,648
New Jersey Cash Management Fund	<u>152,215,577</u>	<u>153,563,268</u>
Total	<u>\$ 152,816,882</u>	<u>\$ 154,180,916</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.

Fair Value Measurements

The Division of State Lottery follows the Fair Value Measurements Topic of the FASB Accounting Standards Codification, which provides a framework for measuring fair value under accounting principles generally accepted in the United States of America.

NEW JERSEY DIVISION OF STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS

B. CASH AND INVESTMENTS (CONTINUED)

As defined in the Fair Value Measurements Topic of the FASB Accounting Standards Codification, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Division of State Lottery uses the stock market index approach. Based on this approach, the Division of State Lottery often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Division of State Lottery utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques the Division of State Lottery required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 - Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3 - Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

Investments

The fair value of investment securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument. Investments at June 30, 2011, consist of Prudential Financial common stock.

Fair Value on a Recurring Basis

The table below presents the balances of investments measured at fair value on the statement of net assets as of June 30, 2011:

	June 30, 2011			
	Total	Level 1	Level 2	Level 3
Available for sale securities	\$ 3,203,283	\$ 3,203,283	\$ -	\$ -
Total	<u>\$ 3,203,283</u>	<u>\$ 3,203,283</u>	<u>\$ -</u>	<u>\$ -</u>

NEW JERSEY DIVISION OF STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS

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 Win for Life instant game 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, 2011 and 2010, the Division held U.S. government securities totaling \$40,246,366 and \$41,081,902, respectively, which are included in investments - deposit fund contracts.

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, 2011, eight companies with annuity contracts totaling approximately \$218,285,264 had ratings below those minimally acceptable for new purchases. At June 30, 2011 and 2010, the Division held insurance company annuity contracts totaling \$405,486,747 and \$485,761,324, respectively, issued through ten 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, 2011 and 2010.

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 almost 6,200 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 2, 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>
2012	\$ 802,871
2013	814,933
2014	429,904
2015	154,883
2016	154,883
2017	<u>129,069</u>
	<u>\$ 2,486,543</u>

Rent expense for office facilities at June 30, 2011 and 2010, was \$1,134,182 and \$1,081,213, respectively.

F. SUBSEQUENT EVENTS

Management has evaluated subsequent events that occurred after the statement of net assets date but before October 18, 2011, the date the financial statements were available to be issued.

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, 2011

	<u>Budget</u> <u>(unaudited)</u>	<u>Actual</u>	Variance (unfavorable) favorable
Operating revenues			
Ticket Sales			
Pick 3	\$ 427,337,000	\$ 435,314,038	\$ 7,977,038
Pick 4	257,713,000	258,279,303	566,303
Jersey Cash 5	145,604,000	146,364,005	760,005
Pick 6 Lotto	72,451,000	68,530,737	(3,920,263)
Mega Millions	213,200,000	230,633,522	17,433,522
Powerball	166,400,000	132,782,891	(33,617,109)
Instant games	<u>1,368,751,000</u>	<u>1,364,543,070</u>	<u>(4,207,930)</u>
Total ticket sales	2,651,456,000	2,636,447,566	(15,008,434)
Other income			
Forfeited prizes	32,373,000	38,453,261	6,080,261
Miscellaneous	<u>1,000,000</u>	<u>1,981,067</u>	<u>981,067</u>
Total operating revenues	<u>2,684,829,000</u>	<u>2,676,881,894</u>	<u>(7,947,106)</u>
Operating expenses			
Prize expenses	1,546,434,970	1,543,672,565	(2,762,405)
Amortization expense	52,000	51,660	(340)
Bad debt expense	600,000	650,000	50,000
Administration expenses	24,370,000	22,322,459	(2,047,541)
Retailer commissions	145,829,640	146,973,605	1,143,965
Online vendor fees	18,008,694	17,901,509	(107,185)
Instant vendor fees	19,299,375	14,793,052	(4,506,323)
Multi-state fees	50,000	31,219	(18,781)
Online network fees	1,000,000	(855,684)	(1,855,684)
Drawing broadcast fees	<u>675,000</u>	<u>1,074,418</u>	<u>399,418</u>
Total operating expenses	<u>1,756,319,679</u>	<u>1,746,614,803</u>	<u>(9,704,876)</u>
Operating income	928,509,321	930,267,091	1,757,770
Non-operating revenue			
Interest	<u>500,000</u>	<u>365,309</u>	<u>(134,691)</u>
Income before transfers out	929,009,321	930,632,400	1,623,079
Contributions for state aid to education and state institutions	<u>930,000,000</u>	<u>930,000,111</u>	<u>111</u>
Change in net assets	(990,679)	632,289	1,622,968
Net assets, beginning of year	<u>10,231,408</u>	<u>10,231,409</u>	<u>(1)</u>
Net assets, end of year	<u>\$ 9,240,729</u>	<u>\$ 10,863,698</u>	<u>\$ 1,622,969</u>

NEW JERSEY DIVISION OF STATE LOTTERY

SCHEDULES OF INSTANT GAME REVENUES

	Year Ended June 30,	
	2011	2010
\$100,000,000 SPECTACULAR	\$ 116,921,250	\$ -
CROSSWORD (BA)	42,613,077	-
CROSSWORD (BB)	42,186,369	-
CROSSWORD (AZ)	41,071,215	-
CROSSWORD (BC)	39,554,586	-
BIG MONEY SPECTACULAR (AJ)	35,903,120	-
BIG MONEY SPECTACULAR (AK)	33,746,776	-
BIG MONEY SPECTACULAR (AN)	33,493,456	-
BIG MONEY SPECTACULAR (AM)	33,435,394	-
BIG MONEY SPECTACULAR (AL)	33,359,328	-
SUPER CROSSWORD (Z)	21,901,830	-
POKER SHOWDOWN	21,640,730	-
SUPER CROSSWORD (AB)	21,519,135	-
SUPER CROSSWORD (Y)	21,227,555	-
BIG MONEY SPECTACULAR (AI)	21,053,808	13,042,740
CLASSIC BINGO (B)	20,929,810	-
LUCKY TIMES 20	20,657,370	-
CHAMPIONSHIP POKER 6TH ED	20,622,665	-
SUPER CROSSWORD (AA)	20,590,330	-
CROSSWORD (AY)	19,151,886	23,573,769
SUPER CROSSWORD (AC)	19,095,270	-
MULTI-PRIZE BINGO	17,879,030	-
COLD HARD CASH	17,629,330	1,113,600
HOLIDAY SPECTACULAR	16,960,415	-
GREAT GOLDEN 7s	16,375,360	-
WIN FOR LIFE (A13)	15,564,552	237,300
SUPER CROSSWORD (X)	15,500,445	5,224,800
BLAZING 7s BINGO TRIPLER	15,301,101	-
HOLD'EM POKER	15,079,235	-
TRIPLE PLAY	13,410,213	2,876,721
SUPER TIC TAC TOE	13,089,792	-
RUBY RED SLINGO	12,882,708	-
WIN FOR LIFE (A14)	12,734,598	-
\$10,000 MONEY MATCH	12,033,300	-
BLACKJACK DOUBLER	11,921,586	-
EMERALD 7'S	11,830,506	-
CLASSIC BLACK	11,615,020	-
HOLIDAY LUCKY TIMES 10	11,570,168	-
SUPER CASH BLAST	11,486,140	6,692,480
MONEY, MONEY, MONEY	11,478,240	3,125,680
CLASSIC BINGO (C)	10,740,582	-
WINTER \$50'S	10,217,316	-
SUNNY \$50S	9,689,532	1,131,000
\$100 HARVEST	9,672,144	-
BIRTHDAY WISHES (G)	9,456,890	-
DOUBLE DOLLARS	9,321,822	-
LUCKY TIMES 10	8,785,678	-
\$1000 DOWNPOUR	8,651,940	-

NEW JERSEY DIVISION OF STATE LOTTERY

SCHEDULES OF INSTANT GAME REVENUES

	Year Ended June 30,	
	2011	2010
SURPRISE PACKAGE	\$ 8,606,638	\$ -
MONOPOLY (2011)	8,562,546	-
CHAMPIONSHIP POKER 5TH ED.	8,394,720	11,551,725
BINGO TIMES 10 (C)	8,092,510	11,674,150
TRIPLE DOLLARS	8,047,946	-
\$50 SMACKERS	7,987,888	-
BIG MONEY BINGO	7,885,190	-
BLACKOUT BINGO	7,872,996	8,123,136
BIG MONEY SPECTACULAR	7,749,900	-
WILD DEUCES	7,680,149	-
BINGO CONNECT	7,625,515	8,326,925
LUCKY LINES	7,564,938	-
\$500 CELEBRATION	7,520,762	-
DICE	7,397,656	-
SUPER SUMMER DOUBLER	7,308,646	2,938,202
CROSSWORD (BD)	7,234,200	-
CASINO 7s	7,202,440	6,819,970
BLACKJACK BONUS	7,056,710	9,625,200
WINNING STREAK	6,758,885	-
GOLD RUSH	6,595,648	-
\$300,000 DOUBLE DOWN	6,524,410	-
LUCKY DUCK DOUBLER	6,488,766	-
CLOVERS & CASH DOUBLER	6,264,712	-
STAR SPANGLED 7S	6,182,490	2,947,888
CRUISE FOR CASH (ROYAL CARIBBEAN)	6,034,375	-
NY GIANTS	5,879,225	-
MINUTE TO WIN IT	5,753,268	-
LUCKY 7S CASINO	5,735,280	-
BIG LEAGUE BASEBALL	5,665,440	3,791,365
ZODIAC MATCH	5,465,208	5,034,516
CASH IN A FLASH	5,455,956	-
NY JETS	5,295,895	-
JINGLE BELL BONUS	5,115,693	-
BLACK CHERRY TRIPLER	4,879,290	-
EXTREME RICHES	4,823,620	14,855,700
CLASSIC BINGO (A)	4,678,870	16,059,354
SILVER BELL BINGO	4,672,050	10,729,701
DEUCES WILD	4,514,010	12,630,080
EXTRA SPIN SLINGO	4,473,063	14,143,473
PLAY BALL	4,313,845	-
EAGLES	4,203,880	-
HOT STREAK	4,070,570	10,851,660
DOUBLE IT (C)	3,967,362	-
MATRI-MONEY (B)	3,696,256	1,096,369
\$500 CELEBRATION	3,546,826	8,034,210
MONEY MULTIPLIER	3,373,460	10,673,250
DOUBLE IT (B)	3,190,208	8,023,837
GOLDEN WISHES	3,000,260	11,004,860

NEW JERSEY DIVISION OF STATE LOTTERY

SCHEDULES OF INSTANT GAME REVENUES

	Year Ended June 30,	
	2011	2010
ELVIS	\$ 2,930,952	\$ 3,396,522
STAR SPANGLED DOUBLER	2,737,536	-
FATHER'S DAY	2,698,609	1,791,765
MOTHER'S DAY	2,661,416	-
SUPER 6'S	2,651,590	-
POKER TOURNEY	2,563,050	-
BIRTHDAY WISHES (E)	2,525,672	7,246,182
BUNDLE OF GREEN	2,477,160	18,783,565
FIREFLY \$50s	2,362,758	-
WIN FOR LIFE (A12)	2,276,718	14,362,017
SUPER CROSSWORD (AD)	2,197,200	-
CASINO ROYALE	2,028,520	13,462,830
MOTHER'S DAY	1,842,122	3,011,605
\$100 SNOWFALL	1,820,508	9,956,200
SINATRA	1,790,374	6,962,240
SUPER CROSSWORD (W)	1,666,035	18,907,380
FATHER'S DAY	1,512,771	-
THE NEW ROYALS	1,405,800	-
BLACK CHERRY TRIPLER	1,373,718	14,890,581
THE WIZARD OF OZ	1,196,994	6,729,506
LUCKY 7'S DOUBLER	1,017,773	6,869,084
BIG MONEY SPECTACULAR (AH)	946,474	33,060,876
BLUEBERRY 7s	884,700	-
CROSSWORD (AX)	874,956	41,521,746
BIRTHDAY WISHES	853,164	-
BUCKS DELUXE	713,750	13,977,330
X-TREME WINNINGS	675,597	14,383,104
SUPER SUM	571,712	11,041,186
IT'S A WONDERFUL LIFE... FOR LIFE	522,770	8,953,525
LUCKY LINES	412,512	16,027,392
SHAMROCK TRIPLER	339,384	9,053,250
\$1,000,000 EXTRAVAGANZA	266,680	6,376,260
SPRING \$50S	264,054	10,010,800
JETS FOOTBALL FANTASY	220,425	8,571,740
TRIPLE TREAT	218,758	4,791,869
KISSES & CASH	166,750	9,566,918
MATRI-MONEY	122,945	5,146,787
SUPER CROSSWORD (V)	118,095	20,586,335
\$500 FRENZY	108,240	11,629,410
HEARTS ARE WILDS	91,046	3,797,102
POKER TOURNEY	83,715	18,802,790
HOLIDAY CROSSWORD	82,200	17,885,949
BIG MONEY SPECTACULAR (AG)	58,440	34,326,376
CROSSWORD (AW)	38,700	43,120,368
TAIL GATOR	37,255	5,393,341
HOLIDAY CHEERS	26,303	5,503,820
PINK PANTHER	25,222	6,269,168
GIANTS FOOTBALL FANTASY	22,930	8,741,880

NEW JERSEY DIVISION OF STATE LOTTERY

SCHEDULES OF INSTANT GAME REVENUES

	Year Ended June 30,	
	2011	2010
KICKOFF CASH	\$ 22,595	\$ 5,359,085
SUPER CASHOUT	20,925	3,147,336
SUMMER FUN	17,172	4,606,760
TRIPLING GREEN BINGO	16,389	15,509,052
BINGO TIMES 10	15,900	16,919,145
PAC MAN CASH	15,358	5,307,270
WIN FOR LIFE (A11)	14,310	15,037,641
BINGO ZONE (E)	11,240	21,540,730
LUCKY GIFT	10,570	5,067,095
BIRTHDAY DAY WISHES (E)	8,624	7,527,324
SUPER CROSSWORD (U)	6,605	21,593,510
BIG MONEY SPECTACULAR (AF)	6,600	33,633,420
CHAMPIONSHIP POKER 4TH ED	5,955	20,077,485
HOLIDAY LUCKY TIMES 10	5,700	11,594,222
BIG MONEY SPECTACULAR (AE)	2,700	35,354,252
SUPER CROSSWORD (T)	2,100	20,654,300
ZODIAC	300	1,350,036
MATRIMONEY (B)	-	5,400
TREASURE HUNT	-	(300)
TIC TAC WILD	-	(34)
JACK FROST	-	(600)
SUDOKU	-	(600)
CODE QUEST	-	(1,515)
SUPER DUPER DOUBLER (C)	-	(1,010)
STAR SPANGLED DOUBLER	-	(2,420)
\$250,000 ULTIMATE BLACKJACK	-	(300)
CASINO MULTIPLIER	-	(300)
FOOTBALL BLITZ	-	(600)
CREEPY CRAWLY CASH	-	(598)
JACK OF SPADES	-	(600)
MAGNIFICENT 7'S	-	(600)
DREAMS OF GOLD	-	(600)
WINNING LINE BINGO	-	(600)
BIRTHDAY WISHES (C)	-	(900)
NEW JERSEY POKER	-	(300)
HOLIDAY GIFT PACK	-	5,400
WIN FOR LIFE (A8)	-	(300)
BINGO ZONE (B)	-	(300)
HOLIDAY TREASURES	-	(300)
GOLD DUST	-	(300)
SAPPHIRE BLUE 7'S	-	(900)
BIG BLACKOUT BINGO	-	(1,500)
BETTY BOOP	-	(300)
\$250,000 ULTIMATE BLACKJACK (2ND ED)	-	517,540
CASH TRIPLER	-	(300)
GOT LUCK?	-	(600)
SILVER COINS	-	(600)
RED HOT SLINGO	-	(600)

NEW JERSEY DIVISION OF STATE LOTTERY

SCHEDULES OF INSTANT GAME REVENUES

	Year Ended June 30,	
	2011	2010
CHAMPIONSHIP POKER (3RD ED)	\$ -	\$ (160)
JOKER'S WILD	-	246,970
\$1,000,000 FORTUNE	-	33,460
CASH GARDEN TRIPLER	-	(1,120)
LUCKY MATCH	-	11,326
BIG MONEY SPECTACULAR (W)	-	(118)
CROSSWORD (AP)	-	(300)
FLAMINGO BINGO DOUBLER	-	(603)
RAISE THE STAKES	-	21,760
GREAT GOLDEN 8'S	-	(302)
WIN FOR LIFE (A9)	-	(2,952)
BIG MONEY SPECTACULAR (X)	-	(300)
WHEEL OF FORTUNE (2008)	-	(2,902)
7TH INNING STRETCH	-	(1,178)
FATHER'S DAY	-	22,354
LUCKY SPIN	-	18,860
SUPER TIC TAC TOE	-	10,923
SOME LIKE IT HOT	-	115,890
LUCKY STAR DOUBLER	-	(3,300)
POKER SHOWDOWN	-	(2,100)
BIG MONEY SPECTACULAR (Y)	-	(300)
CROSSWORD (AQ)	-	(1,200)
SUPER CROSSWORD (M)	-	(600)
BINGO ZONE C	-	14,686
SUNNY MONEY	-	80,466
LET IT ROLL	-	11,264
BIG MONEY SPECTACULAR (Z)	-	300
CASINO NIGHT	-	346,590
LUCKY TIMES 10	-	(1,892)
\$500 FURY	-	12,000
CROSSWORD (AR)	-	6,294
SUPER CROSSWORD (N)	-	(900)
BIG MONEY SPECTACULAR (AA)	-	3,600
BIRTHDAY WISHES (D)	-	107,694
BINGO TIMES 10	-	82,940
THE THREE STOOGES	-	330,134
SHAKE THEM BONES	-	79,089
FORD ESCAPE HYBRID	-	56,688
LUCKY LINES	-	177,246
EMERALD'S 7'S	-	11,130
COLD CASH	-	61,669
CANDY CANE CROSSWORD	-	53,985
JINGLE BELL BINGO	-	10,749
HOLIDAY LUCKY TIMES 10	-	76,488
SUPER CROSSWORD (O)	-	5,415
BINGO ZONE (D)	-	2,248,952
BIG MONEY SPECTACULAR (AB)	-	126,188
SUPER CROSSWORD (P)	-	94,485

NEW JERSEY DIVISION OF STATE LOTTERY

SCHEDULES OF INSTANT GAME REVENUES

	Year Ended June 30,	
	2011	2010
LUCKY HEARTS	\$ -	\$ 2,323,200
NEW JERSEY HOLD'EM POKER	-	347,360
\$500 FLURRY	-	1,625,960
DIAMOND 7'S	-	528,270
CROSSWORD (AU)	-	42,384,558
BIG MONEY SPECTACULAR (AD)	-	36,090,838
CLOVERS AND CASH TRIPLER	(6)	2,671,046
I LOVE DOGS/ I LOVE CATS	(16)	213,948
FLOWERING 50'S	(82)	1,017,846
SUPER PAYDAY	(300)	3,323,740
CROSSWORD (AS)	(300)	262,989
CROSSWORD (AT)	(300)	6,478,512
POKER NIGHT	(300)	14,075,110
SUPER CROSSWORD (S)	(300)	21,381,525
DOUBLE IT	(303)	1,326,199
DOUBLE BLACKJACK	(535)	5,802,460
SILVER & GOLD	(555)	7,501,055
BINGO MONEY BALL	(597)	5,411,076
LUCKY TIMES 10	(600)	5,894,736
RED HOT & BLUE 7'S	(838)	6,355,060
WIN FOR LIFE (A10)	(900)	1,070,151
KING OF CLUBS	(900)	3,068,600
BLAZIN' HOT BUCKS	(1,036)	9,980,628
BIG MONEY SPECTACULAR (AC)	(1,200)	5,795,992
CLUB CASINO	(1,460)	7,139,150
BEAT THE HEAT	(1,480)	525,280
MONEY BAG SLINGO	(1,500)	4,921,215
RUBY RED 7'S	(1,566)	11,797,292
MOTHER'S DAY	(1,781)	1,414,194
DEAL OR NO DEAL	(1,800)	2,050,968
YOGI BERRA CASH CATCHER	(1,874)	3,781,150
GOLD STRIKE	(1,916)	10,589,212
\$50 FALL FEST	(2,060)	10,243,508
\$100 WINDFALL	(2,074)	4,300,428
SUPER CROSSWORD (R)	(2,100)	11,726,900
HARLEY DAVIDSON	(2,764)	1,038,874
ACES HIGH	(2,940)	8,488,050
JOKER'S WILD	(3,699)	2,692,539
CROSSWORD (AV)	(3,900)	42,089,994
FATHER'S DAY	(4,284)	2,581,436
PRIOR YEAR GAME	(40,534)	(32,881)
SUPER CROSSWORD (Q)	-	1,103,945
	<u>\$1,364,543,070</u>	<u>\$1,301,493,067</u>

NEW JERSEY DIVISION OF STATE LOTTERY
SCHEDULES OF ADMINISTRATIVE EXPENSES

	<u>Year ended June 30.</u>	
	<u>2011</u>	<u>2010</u>
Salaries	\$ 8,707,572	\$ 8,172,997
Printing and office supplies	162,318	222,321
Vehicular supplies	1,764	329
Household and clothing	333	269
Other supplies	-	890
Travel	177,413	179,809
Telephone	194,403	103,139
Postage	90,000	90,000
Data processing	740,127	396,077
Household and security	220,693	238,410
Professional services	700,355	387,922
Advertising	9,957,379	7,038,893
Maintenance - building and grounds	8,752	17,640
Maintenance - office equipment	13,724	16,792
Maintenance - vehicles	-	71
Rent - building and grounds	1,134,182	1,081,213
Rent - central motor pool	102,737	87,406
Rent - other	3,623	4,268
Vehicular equipment	-	-
Information processing equipment	45,226	13,432
Other equipment	<u>61,858</u>	<u>278</u>
Total administrative expenses	<u>\$22,322,459</u>	<u>\$18,052,156</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, 2011, and have issued our report thereon dated October 18, 2011. 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

Management of the Division of State Lottery is responsible for establishing and maintaining effective 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.

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

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.

Arcade, PC
Certified Public Accountants

October 18, 2011