

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

Financial Statements
and Supplementary Information

June 30, 2014

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

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**STATE OF NEW JERSEY, DEPARTMENT OF TREASURY, DIVISION OF STATE LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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 ended June 30, 2014 and 2013. 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).

As of June 30, 2014, the Division of State Lottery licenses more than 6,900 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, bonuses and retailer incentive programs.

On June 20, 2013, a competitively bid 15 year (plus fiscal year 2014 stub year) contract was awarded to Northstar New Jersey Lottery Group, LLC ("Northstar NJ") to provide sales and marketing services to the Division of State Lottery for the purpose of increasing lottery sales and net income (net proceeds for state aid for education and state institutions). If contracted net income targets for a given fiscal year are met or exceeded, Northstar NJ will earn incentive compensation. Conversely, if net income targets for a given fiscal year are not met it could result in reduced incentive or a contribution shortfall payment to the Division of State Lottery. In addition to compensation for its sales and marketing efforts, Northstar NJ is reimbursed for certain direct costs it incurs on behalf of the Division of State Lottery.

For the purposes of the incentive and/or shortfall calculation, the calculation is predicated on the net income targets contained in the Northstar NJ contract (see Schedule of Northstar NJ Net Income Targets). The Division of Lottery's actual net income for a fiscal year is decreased when Northstar NJ earns an incentive payment and is increased if Northstar NJ is obligated to pay a shortfall payment.

Due to the complexities of the contract with Northstar NJ, a transition period was necessary. The transition period commenced with the contract signing in June 2013 and ended on September 30, 2013. During this time, most of the Division of State Lottery's marketing and sales force left State service and became Northstar NJ employees. Also during this period, Northstar NJ assumed the marketing, advertising and related functions of the Division of State Lottery.

Northstar NJ's first operational year, the year ending June 30, 2014 was a stub year October 1, 2013 through June 30, 2014. The remaining fifteen years (Fiscal years 2015 – 2029) of the contract will coincide with the Lottery's fiscal year, starting on July 1 and ending on June 30 through the year ending June 30, 2029.

**STATE OF NEW JERSEY, DEPARTMENT OF TREASURY, DIVISION OF STATE LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

INTRODUCTION (CONTINUED)

As part of the agreement, certain lottery contracts were assigned to Northstar NJ. Such contracts included:

- 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 sales terminals and GTECH data centers.
- Pollard Bank Note, Scientific Games and GTECH Printing are contracted to print and support instant game products.
- Brushfire, Inc. is contracted to provide marketing and advertising services.

Under the terms of Northstar NJ's contract, Northstar NJ will have the latitude to renew, renegotiate, extend or rebid contracts for such services as it deems necessary subject to the Division of State Lottery's approval.

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
- CASH4LIFE (*Initiated on June 13, 2014 with the first drawing conducted on June 16, 2014).

FINANCIAL HIGHLIGHTS

The Division of State Lottery's financial position at June 30, 2014 and 2013, consisted of total assets of \$517 million and \$589 million, respectively, and total liabilities of \$516 million and \$580 million, respectively. A substantial portion of the asset and liability amounts relates 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, 2014 and 2013, were \$296 million and \$333 million, respectively. Net position decreased from \$9 million in fiscal year 2013 to \$0.80 million in fiscal year 2014.

FINANCIAL STATEMENTS

The Division of State Lottery's financial statements include the statement of net position as of June 30, 2014 and 2013, the statement of revenues, expenses and changes in net position for the years ended, June 30, 2014 and 2013, and the statement of cash flows for the years ended June 30, 2014 and 2013. The financial statements are prepared in accordance with the accounting principles established by the Governmental Accounting Standards Board.

STATE OF NEW JERSEY, DEPARTMENT OF TREASURY, DIVISION OF STATE LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

FINANCIAL STATEMENTS (CONTINUED)

Statement of Net Position

The statement of net position presents 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 position are summarized (in millions) as follows:

	June 30,		
	2014	2013	2012
Current Assets	\$ 272	\$ 321	\$ 297
Deposit Fund Contracts	245	268	306
Total Assets	<u>517</u>	<u>589</u>	<u>603</u>
Current Liabilities	270	311	284
Non-Current Liabilities	246	269	307
Total Liabilities	<u>516</u>	<u>580</u>	<u>591</u>
Restricted Net Position	0.50	2	5
Unrestricted Net Position	0.30	7	7
Total Net Position	<u>\$ 0.80</u>	<u>\$ 9</u>	<u>\$ 12</u>

Current assets consist of cash and investments in the State of New Jersey Cash Management Fund (the "NJCMF"), accounts receivable, current year annuity investments, and deferred expenses. The investment in the NJCMF totaled \$204 million and \$238 million at June 30, 2014 and 2013, 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 \$296 million and \$333 million as of June 30, 2014 and 2013, 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 \$45 million and \$43 million at June 30, 2014 and 2013, respectively. The annuities due beyond fiscal year 2015 total \$246 million and represent the non-current assets reported on the Division of State Lottery's statement of net position. Although categorized as an asset, annuities represent an obligation that the Division of State Lottery has to the annuitants to fund the monies due to them over a fixed period of time based on the amount of the annuitized jackpot at the time of the "win." The duration of an annuity varies from twenty to thirty years. Because of the true nature of these annuities, the Division of State Lottery has a fiduciary responsibility to continue to administer these instruments in a responsible and prudent manner. The current amounts due to annuity winners totaled \$51 million and \$65 million as of June 30, 2014 and 2013, respectively.

Non-current liabilities represent annuity prize awards due beyond 2015 and also include the total due for unused vacation and sick leave (compensated absences).

STATE OF NEW JERSEY, DEPARTMENT OF TREASURY, DIVISION OF STATE LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

FINANCIAL STATEMENTS (CONTINUED)

Statement of Net Position (Continued)

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

	June 30,		
	2014	2013	2012
Restricted (Unclaimed Prize Reserves)	\$ 0.50	\$ 2	\$ 5
Unrestricted	0.30	7	7
Total Net Position	<u>\$ 0.80</u>	<u>\$ 9</u>	<u>\$ 12</u>

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

Statement of Revenues, Expenses and Changes in Net Position

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

	Years Ended June 30,		
	2014	2013	2012
Operating revenues			
Ticket sales	\$ 2,901	\$ 2,821	\$ 2,759
Forfeited prizes	39	39	38
Miscellaneous income	2	1	1
Total operating revenue	<u>2,942</u>	<u>2,861</u>	<u>2,798</u>
Operating expenses			
Prize expenses	1,732	1,670	1,618
Retailer commissions	162	158	154
Northstar NJ fees and expenses	29	-	-
Vendor fees	46	36	37
Administrative expense	16	35	37
Bad debt expense	1	-	-
Total operating expenses	<u>1,986</u>	<u>1,899</u>	<u>1,846</u>
Operating income	956	962	952
Non-Operating Revenue (expenses)	1	120 *	(1)
Income before transfers out	957	1,082	951
Operating transfers - state contributions	965	1,085	950
(Decrease) increase in net position	<u>\$ (8)</u>	<u>\$ (3)</u>	<u>\$ 1</u>

* As part of the contract terms, Northstar NJ provided a \$120 million "accelerated guarantee payment" to the Division of State Lottery which was reflected in the FY 2013 financials as non-operating revenue. Of this amount, \$20 million is apportioned for use by Northstar NJ to offset any Contribution Shortfall Payments required under the compensation terms of the contract.

The Division of State Lottery awarded approximately \$1.732 billion in prize awards in fiscal year 2014 and over \$1.670 billion in fiscal year 2013. Almost 111 million winning tickets were validated and paid in fiscal year 2014 and over 107 million were validated and paid in fiscal year 2013.

STATE OF NEW JERSEY, DEPARTMENT OF TREASURY, DIVISION OF STATE LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

FINANCIAL STATEMENTS (CONTINUED)

Statement of Revenues, Expenses and Changes in Net Position (Continued)

The Division of State Lottery's vendors provided critical services 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 \$75 million in fiscal year 2014. Of this amount \$29 million was paid directly to Northstar NJ for the services it provided or procured on behalf of the Division of State Lottery subsequent to the October 1, 2013 start date of the management contract. Included in the \$29 million paid to Northstar NJ was \$16 million for advertising and marketing costs. In fiscal year 2013, \$56 million was paid to all such vendors, including \$21 million for advertising and marketing costs. Overall, advertising and marketing costs for fiscal years 2014 and 2013 totaled \$22 million and \$21 million, respectively.

The Division of State Lottery's administrative expenses for the fiscal years 2014 and 2013 totaled \$16 million and \$35 million, respectively. These administrative expenses include salaries, advertising, auditing services, rent, security, data processing services, office supplies and attorney general fees. The decline from fiscal 2013 to fiscal 2014 is directly attributable to the inception of the Northstar NJ contract which shifted advertising expenses from the Division of State Lottery to Northstar NJ. Other contributing factors for the decline are reduced rent and salary expenses due to reduced space needs and staffing levels.

The Division of State Lottery is required by State of New Jersey Lottery law to contribute a minimum of 30% of net revenues from ticket sales to the State of New Jersey, Department of 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 \$965 million, 33% of net sales, in fiscal year 2014 and \$965 million, 34% of net sales, in fiscal year 2013. In fiscal year 2013, an additional \$120 million was contributed to the State for state aid to education and state institutions as a result of a contract award to Northstar NJ. As part of the contract terms, Northstar NJ provided an "accelerated guarantee payment" in the amount of \$120 million.

During the term of the contract, Northstar NJ's incentive compensation is reduced in the event the annual contractual net income target is not met or increased in the event that the net income target is exceeded. Furthermore, in the event that actual net income is significantly below the contracted net income target, then the contribution shortfall payment provisions are invoked.

The base services commencement date for Northstar NJ was October 1, 2013, this was the date that Northstar NJ became responsible to meet their net income target for fiscal year 2014, which was the stub year. Northstar NJ's net income target for the stub year period was prorated based on 9 months of services. The net income target was adjusted to \$760.9 million.

In fiscal year 2014, the actual stub year net income was \$705.5 million; this shortfall of more than \$55 million would necessarily have caused a contribution shortfall payment.

The contract contains two scenarios for calculating the contribution shortfall payment. In the first scenario, if net income for the contract year is less than the Net Income Target but greater than the Base Level Income, then Northstar will issue to the Division of State Lottery a Contribution Shortfall Payment equal to 50% of the difference between the Net Income Target and the actual Net Income for that specific contract year. If Net Income is less than the Base Level Income, then Northstar NJ will issue to the Division of State Lottery a Contribution Shortfall Payment equal to the sum of 50% of the difference between the Base Level Income and the Net Income Target plus 100% of the difference between the Net Income and the Base Level Income.

STATE OF NEW JERSEY, DEPARTMENT OF TREASURY, DIVISION OF STATE LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

Statement of Revenues, Expenses and Changes in Net Position (Continued)

The contract does establish bottom and top caps on Northstar NJ's compensation. In the event of a particularly lucrative contract year (Upper Income Levels are surpassed) total compensation to Northstar NJ cannot exceed 5% of Net Income for the entire contract year. Conversely, in a subpar contract year, the contribution shortfall payment cannot exceed 2% of net income.

In fiscal year 2014, the latter scenario was utilized to calculate the Contribution Shortfall Payment as outlined below.

Contribution Shortfall Payment, below Target, above Base	(\$21,808,805)
Contribution Shortfall Payment below Base	(\$11,737,583)
Net Contribution Shortfall Payment	(\$33,546,387)
Low Cap (Contribution Shortfall cannot exceed 2% of Target)	(\$14,110,837)

The Northstar NJ contract provides for an allowance of \$20 million to offset any potential contribution shortfall payments over the life of the contract. The calculated contribution shortfall amount of \$14,110,837 was deducted from the \$20 million allowance for such purposes leaving a contribution shortfall allowance balance of \$5,889,163 moving forward.

Statement of Cash Flows

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

	Years Ended June 30,		
	2014	2013	2012
Cash flows provided by operating activities	\$ 916	\$ 1,022	\$ 978
Cash flows used in non-capital financing activities	(950)	(1,081)	(953)
Cash flows provided from investing activities	34	57	(23)
Net (decrease) increase in cash	<u>\$ -</u>	<u>\$ (2)</u>	<u>\$ 2</u>

SUMMARY AND OUTLOOK

Division of State Lottery management has been working closely with Northstar NJ throughout fiscal year 2014, and looks forward to continuing this exciting partnership going into the first full year of the contract.

On June 13, 2014, the Division of State Lottery launched "CASH4LIFE", a new multi-state draw game (New Jersey and New York) in which players can win \$1,000 a day for life, \$1,000 a week for life or a variety of other prizes. To date "CASH4LIFE" has exceeded expectations and is proving very popular with players. Additionally, on October 19, 2014, another new multi-state draw game called "Monopoly Millionaires' Club" will be launched. Monopoly Millionaires Club offers three different ways to win \$1 million or more on each ticket and is designed to create hundreds of millionaires. The game will also have its own national TV game show that is scheduled to premiere in February 2015.

Looking forward, players and retailers can expect to see new promotions and incentive programs, expansion of the retailer base, other new games and other beneficial changes. With the assistance of Northstar NJ, the Division of State Lottery will continue to enhance its position as a major revenue source for the State of New Jersey. The revenue generated by the Division of State Lottery funds various educational and institutional programs throughout the State.

CONTACTING THE DIVISION OF STATE LOTTERY'S FINANCIAL MANAGEMENT

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

INDEPENDENT AUDITORS' REPORT

State of New Jersey
Department of Treasury
Division of State Lottery

Report on the Financial Statements

We have audited the accompanying financial statements of the State of New Jersey, Department of Treasury, Division of State Lottery (the "Division of State Lottery") as of and for the years ended June 30, 2014 and 2013, and the related notes to financial statements, which collectively comprise the Division of State Lottery's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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INDEPENDENT AUDITORS' REPORT (CONTINUED)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Division of State Lottery as of June 30, 2014 and 2013, and the respective changes in its financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages one through six be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Division of State Lottery's basic financial statements. The accompanying schedules of revenues, expenses and changes in net position budget and actual, instant game revenues and administrative expenses are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information except for the portion marked "unaudited," has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the portion marked "unaudited," the schedules of revenues, expenses and changes in net position budget and actual, instant game revenues and administrative expenses are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The schedule of Northstar NJ net income targets as listed in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 31, 2014 and November 1, 2013, for the years ended June 30, 2014 and 2013, respectively, 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* in considering the Division of State Lottery's internal control over financial reporting and compliance.

Mercadien, P.C.
Certified Public Accountants

MERCADIEN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

October 31, 2014

**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 Treasury
Division of State Lottery

We have audited, in accordance with the 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, the financial statements of the Division of State Lottery as of and for the years ended June 30, 2014 and 2013, and the related notes to financial statements, which collectively comprise the Division of State Lottery's basic financial statements, and have issued our report thereon dated October 31, 2014.

Internal Control over Financial Reporting

In planning and performing our audits of the basic financial statements, we considered the Division of State Lottery's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Division of State Lottery's internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Division of State Lottery's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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- 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 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 from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mercadien, P.C.
Certified Public Accountants

**MERCADIEN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS**

October 31, 2014

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

STATEMENT OF NET POSITION

	June 30,	
	2014	2013
ASSETS		
Current Assets		
Cash	\$ 407,418	\$ 434,249
Accounts receivable, net of allowance for doubtful accounts of \$2,395,000 and \$2,527,000 in 2014 and 2013, respectively	13,220,416	5,179,496
Deferred expenses	3,027,054	12,823,215
Investments		
Deposit fund contracts	50,768,499	64,581,504
State of New Jersey Cash Management Fund	<u>204,414,284</u>	<u>238,214,847</u>
Total Current Assets	271,837,671	321,233,311
Non-Current Assets		
Investments - deposit fund contracts	<u>245,502,273</u>	<u>268,039,828</u>
Total Non-Current Assets	<u>245,502,273</u>	<u>268,039,828</u>
Total Assets	<u>\$ 517,339,944</u>	<u>\$ 589,273,138</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	\$ 13,772,463	\$ 46,603,451
Obligation for unpaid prize awards	89,780,528	99,041,473
Installment prize awards	50,768,499	64,581,504
Due to State of New Jersey - education and state institutions	<u>116,010,000</u>	<u>101,009,581</u>
Total Current Liabilities	<u>270,331,490</u>	<u>311,236,009</u>
Non-Current Liabilities		
Compensated absences	686,899	984,403
Installment prize awards	<u>245,502,273</u>	<u>268,039,828</u>
Total Non-Current Liabilities	<u>246,189,172</u>	<u>269,024,231</u>
Total Liabilities	<u>516,520,662</u>	<u>580,260,240</u>
NET POSITION		
Restricted for prize awards or contributions for aid to education and state institutions	499,998	2,139,036
Unrestricted	<u>319,284</u>	<u>6,873,862</u>
Total Net Position	<u>\$ 819,282</u>	<u>\$ 9,012,898</u>

STATE OF NEW JERSEY, DEPARTMENT OF TREASURY, DIVISION OF STATE LOTTERY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Years ended June 30,	
	2014	2013
Operating Revenues		
Ticket Sales		
Pick 3	\$ 436,742,690	\$ 434,042,304
Pick 4	268,396,396	266,142,981
Jersey Cash 5	148,226,709	144,392,456
Pick 6 Lotto	77,529,761	65,323,206
CASH4LIFE	4,727,306	-
Mega Millions	205,860,905	136,832,941
Powerball	233,653,931	300,381,206
Raffle sales	1,227,770	-
Instant games	1,531,771,568	1,474,285,065
Sales discounts/tickets provided as prizes	(6,491,474)	-
Total Ticket Sales	2,901,645,562	2,821,400,159
Other Revenues		
Forfeited prizes	38,866,559	38,677,399
Miscellaneous	1,705,289	881,235
Total Operating Revenues	2,942,217,410	2,860,958,793
Operating Expenses		
Prize expenses	1,731,959,514	1,670,394,764
Retailer commissions	162,107,574	157,880,945
Instant ticket vendor printing fees	18,706,070	18,140,608
Gaming system vendor fees	27,220,623	17,398,700
Northstar NJ management fee	3,552,740	-
Northstar NJ manager expenses	9,383,269	-
Northstar NJ advertising & marketing expenses	16,331,995	-
Administrative expenses	15,877,577	35,276,475
Multi-state fees	65,122	14,751
Drawing broadcast fees	5,980	126,906
Bad debt expense	400,000	-
Total Operating Expenses	1,985,610,464	1,899,233,149
Operating Income	956,606,946	961,725,644
Non-Operating Revenue		
Interest	209,438	213,544
Accelerated guarantee payment	-	120,000,000
Income before Transfers Out	956,816,384	1,081,939,188
Northstar NJ incentive (shortfall) payment	-	-
Income available for Transfers Out	956,816,384	1,081,939,188
Transfers Out - contributions for state aid to education and state institutions	965,010,000	1,085,009,581
Change in net position	(8,193,616)	(3,070,393)
Net position, beginning of year	9,012,898	12,083,291
Net position, end of year	\$ 819,282	\$ 9,012,898

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

STATEMENT OF CASH FLOWS

	Years ended June 30,	
	2014	2013
Cash Flows from Operating Activities		
Sales to customers, net	\$ 1,428,992,039	\$ 1,399,110,374
Payments for prize awards	(423,866,990)	(332,958,165)
Payments for vendor commissions and fees	(67,742,494)	(35,953,906)
Payments to suppliers	(34,833,546)	(23,552,491)
Other payments	(19,526)	(36,652)
Cash flows from annuity operations		
Annuity receipts	64,581,504	77,794,504
Purchases of annuities	(8,408,676)	(7,744,300)
Payments of annuity prizes	(42,729,559)	(54,811,336)
Net Cash Provided by Operating Activities	<u>915,972,752</u>	<u>1,021,848,028</u>
Cash Flows used in Non-Capital Financing Activities		
Contributions for aid to education and state institutions	<u>(950,009,581)</u>	<u>(1,081,082,267)</u>
Cash Flows from Investment Activities		
Cash Management Fund proceeds	1,281,510,000	1,278,268,000
Cash Management Fund purchases	(1,247,500,000)	(1,341,250,000)
Accelerated Guarantee Payment	-	120,000,000
Net Cash Provided by Investing Activities	<u>34,010,000</u>	<u>57,018,000</u>
Net decrease in cash	(26,830)	(2,216,239)
Cash, beginning of year	434,249	2,650,488
Cash, end of year	<u>\$ 407,418</u>	<u>\$ 434,249</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	\$ 956,606,946	\$ 961,725,644
Changes in assets and liabilities		
Accounts receivable	(8,040,920)	6,346,946
Investments - deposit fund contracts	36,350,560	67,317,443
Other assets	9,796,161	1,089,073
Accounts payable and accrued expenses	(32,830,987)	19,471,278
Obligation for unpaid prize awards	(45,611,505)	(34,047,207)
Compensated absences	(297,504)	(55,149)
Net Cash Provided by Operating Activities	<u>\$ 915,972,752</u>	<u>\$ 1,021,848,028</u>

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

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The State of New Jersey, Department of Treasury, Division of State Lottery (the "Division of State Lottery") and the State Lottery Commission (the "Commission") were concurrently established in 1970, pursuant to the "State Lottery Law" (N.J.S.A. 5:9-1 et seq.). The Division of State Lottery operates within the Department of 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 specifically 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. 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.

STATE OF NEW JERSEY, DEPARTMENT OF TREASURY, 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 the following requirements:

1. Combined capital and surplus of at least \$1 billion;
2. Admitted assets of at least \$10 billion;
3. Risk based capital ratio of at least 300%; and
4. Must have ratings equal to or better than at least two of the three private rating agencies:
 - Standard & Poor's long term insurer financial strength rating of AA- or higher
 - AM Best financial strength rating of "A" or higher
 - Moody's long term insurance financial strength rating of "Aa3" or higher

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 statements of net position 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, 2014 and 2013, leasehold improvements included in deferred expenses were \$594,968. For the years ended June 30, 2014 and 2013, amortization expense was \$52,668 and \$99,159, respectively.

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

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position

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 position represents resources available for current operating expenses in compliance with legal and budgetary restrictions.

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," "Megaplier", "Powerball", "Power Play", "CASH4LIFE", 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. Tickets provided as prizes are recorded as sales at the face value of each ticket, then backed out as discounts and are not included in prize expense.

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 70% 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, 2014 and 2013, forfeited prizes were \$38,866,559 and \$38,677,399, 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, 2014 and 2013, aggregated \$965,010,000 and \$1,085,009,581, respectively, of which \$116,010,000 and \$101,009,581 was due to the State Treasury at June 30, 2014 and 2013, respectively. The 2013 contribution included a \$120 million Accelerated Guarantee Payment received from Northstar New Jersey Lottery Group, LLC ("Northstar NJ" or "NSNJ").

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

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and Prize Awards (Continued)

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.

Northstar NJ has had numerous retailer incentive programs for the purpose of boosting sales, these include temporary commission increases and bonuses. Both of these incentives are recorded as prize expense.

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 \$5,204,308 and \$20,736,101 for the years ended June 30, 2014 and 2013, respectively. Starting October 1, 2013, these services were transferred to Northstar NJ as part of the management contract.

New Accounting Pronouncement

The Governmental Accounting Standards Board has issued Statement No. 68, "Accounting and Financial Reporting for Pension Plans" effective for fiscal years beginning after June 15, 2014. The objective of the statements is to improve information about financial support for pensions and improve financial reporting and accounting by state and local governmental pension plans. Statement No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows and inflows, and expenses and requires the calculation and recording of a net pension liability and subsequent allocation of the unfunded liability to individual employers participating in the plans, including a proportionate share of the actuarial valuation. Full time employees of the Lottery are covered by the Public Employee's Retirement System of the State of New Jersey ("PERS") which is a cost sharing, multiple-employer defined benefit plan. As such, the Lottery will receive information from the State of New Jersey for inclusion in its financial statements and disclosures. The Lottery plans to implement these standards for its fiscal year ending June 30, 2015.

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

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncement (Continued)

The GASB has issued Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68". This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine *all* such amounts. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

Reclassification of Prior Year Balances

Certain prior year balances have been reclassified to conform with the current year's presentation.

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, 2014 and 2013. The Division's deposits with Wells Fargo are insured by the Federal Deposit Insurance Corporation up to \$250,000.

	<u>June 30,</u>	
	<u>2014</u>	<u>2013</u>
Wells Fargo	\$ 407,418	\$ 434,249
New Jersey Cash Management Fund	<u>204,414,284</u>	<u>238,214,847</u>
Total	<u>\$204,821,702</u>	<u>\$238,649,096</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 investment in the New Jersey Cash Management Fund is 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.

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

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

NOTES TO FINANCIAL STATEMENTS

B. CASH AND INVESTMENTS (CONTINUED)

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 is 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.

Fair Value on a Recurring Basis

The table below presents the balances of investments - deposit fund contracts measured at fair value on the statement of net position as of June 30, 2014 and 2013:

	June 30, 2014			
	Total	Level 1	Level 2	Level 3
Annuity Investment Deposit				
Fund Contracts	\$ 296,270,772	\$ 44,563,284	\$ 251,707,488	\$ -
Total	<u>\$ 296,270,772</u>	<u>\$ 44,563,284</u>	<u>\$ 251,707,488</u>	<u>\$ -</u>
	June 30, 2013			
Annuity Investment Deposit				
Fund Contracts	\$ 332,621,332	\$ 43,409,922	\$ 289,211,410	\$ -
Total	<u>\$ 332,621,332</u>	<u>\$ 43,409,922</u>	<u>\$ 289,211,410</u>	<u>\$ -</u>

C. FUTURE INSTALLMENT PRIZE AWARDS

The Division of State Lottery 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.

STATE OF NEW JERSEY, DEPARTMENT OF TREASURY, 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 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 the following requirements:

1. Combined capital and surplus of at least \$1 billion;
2. Admitted assets of at least \$10 billion;
3. Risk based capital ratio of at least 300%; and
4. Must have ratings equal to or better than at least two of the three private rating agencies:
 - Standard & Poor's long term insurer financial strength rating of AA- or higher
 - AM Best financial strength rating of "A" or higher
 - Moody's long term insurance financial strength rating of "Aa3" or higher.

According to the Division of State Lottery's calculation, only one company does not meet the criteria, that of Sun Life Assurance; as of June 30, 2014, Sun Life Assurance had annuity contracts totaling approximately \$36,773,973. However, due to the long-term nature of these contracts, the credit quality of the issuer is subject to change. At June 30, 2014 and 2013, the Division of State Lottery held insurance company annuity contracts totaling \$251,707,488 and \$289,211,410, respectively, issued through ten insurance companies, which are due in installments ranging from twenty-five years to the lifetime of the recipient. The estimated fair value of annuity contracts approximates the carrying value reflected in the accompanying statement of net position at June 30, 2014 and 2013.

U.S. government securities are carried at fair value. At June 30, 2014 and 2013, the Division of State Lottery had \$44,563,284 and \$43,409,922, respectively, in U.S. treasuries.

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 of State Lottery'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.

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

NOTES TO FINANCIAL STATEMENTS

E. COMMITMENTS

Contractual Arrangements

The Division of State Lottery maintains a gaming network of over 6,900 retailer locations where all games are sold. GTECH Corporation is responsible for operating the network games and providing courier services under a contract that was assigned to Northstar NJ on October 1, 2013 and expires concurrent with Northstar NJ's contract.

On June 20, 2013, a competitively bid 15 year contract was awarded to Northstar New Jersey Lottery Group, LLC to provide sales and marketing services to the Division of State Lottery. Northstar New Jersey Lottery Group, LLC is owned directly by two members: (1) Scientific Games New Jersey, LLC, and (2) Northstar New Jersey Holding Company, LLC, and indirectly by three companies: (1) GTECH Corporation and (2) OSI LTT NJ Holdings Inc., which are the Members of Northstar New Jersey Holding Company, LLC, and (3) Scientific Games International, Inc., which is the owner of Scientific Games New Jersey, LLC. The base services commenced on October 1, 2013. The contract required NSNJ to bid net income targets for each fiscal year of the 15 year contract. If NSNJ meets or exceeds the net income target for a given fiscal year, they can earn an incentive pay or alternatively, if they don't meet the net income target, they are assessed a penalty. The Northstar NJ contract provides for an allowance of \$20 million to offset any potential contribution shortfall payments over the life of the contract. For fiscal year 2014 (stub year), the calculated contribution shortfall amounted to \$14,110,837 which was deducted from the \$20 million contractual allowance for such purposes leaving a contribution shortfall allowance balance of \$5,889,163.

Prior to the beginning of each fiscal year the Division of State Lottery and Northstar NJ agree to an annual business plan that includes the projected operating expenses of Northstar NJ for the fiscal year. Each month NSNJ may invoice the Division of State Lottery one twelfth (1/12) of the total operating expenses for the fiscal year. Each monthly invoice is accompanied by detailed backup data and information supporting expenses incurred. At the end of the fiscal year Northstar NJ operating expenses are aggregated and reconciled with any excess returned to the Division of State Lottery. The Northstar NJ expenses for services to the Division of State Lottery amounted to \$29,268,004 for the year ended June 30, 2014.

In addition to the budgeted monthly expenditures, NSNJ receives a system provider vendor fee based on 1.05% of ticket sales and an instant ticket printing fee based on 1.216% of ticket sales as part of its subcontractor agreements. All other gaming contractors are paid fees based on the units of service provided.

Operating Leases

The Division of State Lottery leases certain office facilities and equipment under non-cancelable operating lease agreements expiring through fiscal year 2024.

Future minimum lease payments for office facilities are as follows:

<u>Year Ending June 30.</u>	<u>Amount</u>
2015	\$ 793,433
2016	793,433
2017	767,619
2018	638,550
2019	648,583
2020-2024	<u>2,896,229</u>
	<u>\$ 6,537,847</u>

Rent expense for office facilities and equipment for the years ended June 30, 2014 and 2013, was \$1,127,424 and \$1,070,081, respectively.

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

NOTES TO FINANCIAL STATEMENTS

F. GASB STATEMENT NUMBER 45 - ACCOUNTING AND FINANCIAL REPORTING BY EMPLOYERS FOR POST-RETIREMENT BENEFITS OTHER THAN PENSION

The Division of State Lottery is a member of the State of New Jersey's cost sharing multiple-employer plan for health and post-retirement medical benefits. Thus, the Division of State Lottery's portion of this liability and cost is included in the State of New Jersey's Comprehensive Annual Financial Report, as such, the Liability of Division of State Lottery's employees is covered under the State plan on an annual basis.

Please refer to State website www.state.nj.us for more information regarding the plan.

G. PENSION PLAN

The Division of State Lottery's employees participate in the Public Employees Retirement System of New Jersey ("PERS"), a cost sharing multiple-employer defined benefit plan. The Division of State Lottery's contribution is determined by State statute and is based upon an actuarial computation performed by the PERS.

The Division of State Lottery's total and covered payroll for the years ended June 30, 2014, 2013 and 2012, was, \$6,421,066, \$8,871,554 and \$9,000,095, respectively. The State of New Jersey's (the "State") contribution is based on the employer contribution rate developed by the system's actuary. The rate is then applied against the pension eligible salary for all State employees. The State does not keep track of contributions made to PERS for each separate state agency. For fiscal year ended June 30, 2014 and 2013, the contribution rate was 3.06% and 6.03%, respectively. For fiscal year ended June 30, 2012, the contribution rate was 2.71%.

The State of New Jersey, Division of Pension and Benefits, issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State of New Jersey, Division of Pension and Benefits, P.O. Box 295, Trenton, NJ 08625-0295 or by visiting their website at: www.state.nj.us/treasury/pensions.

H. ROUNDING

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

SUPPLEMENTARY INFORMATION

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

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

Year ended June 30, 2014

	Budget (unaudited)	Actual	Variance (unfavorable) favorable
Operating Revenues			
Ticket Sales			
Pick 3	\$ 441,846,520	\$ 436,742,690	\$ (5,103,830)
Pick 4	270,693,804	268,396,396	(2,297,408)
Jersey Cash 5	151,146,775	148,226,709	(2,920,066)
Pick 6 Lotto	72,280,209	77,529,761	5,249,552
CASH4LIFE	4,000,000	4,727,306	727,306
Mega Millions	219,916,365	205,860,905	(14,055,460)
Powerball	258,256,913	233,653,931	(24,602,982)
Raffle sales	2,000,000	1,227,770	(772,230)
Instant Games	1,562,847,468	1,531,771,568	(31,075,900)
Sales discounts/tickets provided as prizes	(6,600,000)	(6,491,474)	108,526
Total Ticket Sales	<u>2,976,388,055</u>	<u>2,901,645,562</u>	<u>(74,742,493)</u>
Other Revenues			
Forfeited prizes	38,500,000	38,866,559	366,559
Miscellaneous	800,000	1,705,289	905,289
Total Operating Revenues	<u>3,015,688,055</u>	<u>2,942,217,410</u>	<u>(73,470,645)</u>
Operating Expenses			
Prize expenses	1,766,079,116	1,731,959,514	(34,119,602)
Retailer commissions	166,450,733	162,107,574	(4,343,159)
Instant ticket vendor printing fees	19,074,580	18,706,070	(368,510)
Gaming system vendor fees	29,756,869	27,220,623	(2,536,246)
Northstar NJ management fee	3,552,740	3,552,740	-
Northstar NJ manager expenses	17,604,386	9,383,269	(8,221,117)
Northstar NJ advertising & marketing expenses	22,000,000	16,331,995	(5,668,005)
Administrative expenses	17,000,000	15,877,577	(1,122,423)
Multi-state fees	50,000	65,122	15,122
Drawing broadcast fees	-	5,980	5,980
Bad debt expense	600,000	400,000	(200,000)
Total Operating Expenses	<u>2,042,168,425</u>	<u>1,985,610,464</u>	<u>(56,557,961)</u>
Operating Income	973,519,631	956,606,946	(16,912,685)
Non-Operating Revenue			
Interest	200,000	209,438	9,438
Income before transfers out	973,719,631	956,816,384	(16,903,247)
Northstar NJ incentive/(shortfall) payment	(6,591,878) *	-	6,591,878 **
Income available for transfer	967,127,753	956,816,384	(10,311,369)
Contributions for state aid to education and state institutions	967,000,000	965,010,000	(1,990,000)
Change in net position	127,753	(8,193,616)	(8,321,369)
Net position, beginning of year	9,012,898	9,012,898	-
Net position, end of year	<u>\$ 9,140,651</u>	<u>\$ 819,282</u>	<u>\$ (8,321,369)</u>

* The budgeted Northstar NJ incentive payment of \$6,591,878 for meeting net revenue target.

** See Note E.

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

SCHEDULE OF INSTANT GAME REVENUES

	Years Ended June 30,	
	2014	2013
\$100,000,000 SPECTACULAR	\$ 119,030,930	\$ 65,828,120
DIAMOND SPECTACULAR	55,965,330	3,489,140
\$150,000,000 CASH SPECTACULAR	54,849,140	-
CROSSWORD	42,177,681	-
CROSSWORD	41,713,581	-
CROSSWORD	41,438,451	-
\$2,000,000 MEGA CASH	41,340,340	-
WIN \$2,500 A WEEK FOR LIFE	39,918,620	-
BIG MONEY SPECTACULAR	35,778,250	-
BIG MONEY SPECTACULAR	35,174,900	-
10X CASH	34,483,480	-
BIG MONEY SPECTACULAR	34,205,894	-
BIG MONEY SPECTACULAR	33,667,616	-
WIN \$1,000 A WEEK FOR LIFE	33,190,840	-
20X CASH	32,307,321	-
SUPER CROSSWORD	28,206,230	-
SUPER CROSSWORD	27,926,195	-
SUPER CROSSWORD	26,075,820	-
SUPER CROSSWORD	25,810,495	29,100
50X MONEY	25,702,190	-
SILVER GOLD PLATINUM 7'S	22,702,405	-
GOLD BAR BINGO	19,790,568	1,114,495
BIG MONEY SPECTACULAR	19,628,970	15,228,756
MERRY MILLIONAIRE	19,555,790	-
QUARTER MILLION CROSSWORD	17,743,150	-
WIN \$500 A WEEK FOR LIFE	17,682,341	-
HOLD 'EM POKER	17,672,985	-
5X CASH	17,594,135	3,630,630
WIN FOR LIFE	16,607,675	1,142,625
CASH LINES	16,144,536	-
20X MONEY	15,732,665	-
SEASON'S GOLD	15,269,823	-
CHAMPIONSHIP POKER	14,985,320	4,598,670
POWER PLAY CROSSWORD	14,942,324	-
NEW JERSEY HOLD 'EM POKER	14,801,703	-
GOLDEN NUGGET	14,398,809	-
CLASSIC BINGO	13,649,714	7,808,058
CROSSWORD	12,806,112	28,960,233
HOLIDAY LUCKY TIMES 10	12,738,092	-
\$500 FRENZY	12,502,800	-
MASSIVE MONEY BINGO	12,449,436	-
CROSSWORD	12,384,123	-
RUBY RED 7s	12,079,940	-
SUNNY \$50'S	11,819,998	-
10X MONEY	11,254,460	-
DIAMOND SPECTACULAR	11,109,970	-
CLASSIC BINGO	10,703,088	-
LUCKY TIMES 20	10,448,192	10,440,925
HIGH ROLLER	10,410,505	-
BINGO BOXES	10,368,000	-

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

SCHEDULE OF INSTANT GAME REVENUES

	Years Ended June 30,	
	2014	2013
HIT \$50s	9,581,298	-
MONEY MATCH	9,408,600	-
\$500,000 LUCKY STREAK	9,322,137	-
SNOW ME THE MONEY	9,193,092	-
FIRE & ICE	9,028,743	-
LUCKY LINES	8,781,778	6,911,688
QUARTER MILLION CROSSWORD	8,427,670	8,836,680
\$50,000 LUCKY STREAK	8,088,975	-
LOVE TO WIN!	7,597,992	-
BIG MONEY SPECTACULAR	7,171,054	-
RED, WHITE & MOOLA	6,982,504	1,704,334
ZUMA	6,902,577	-
LUCKY 7'S DOUBLER	6,783,836	273,300
CASINO MULTIPLIER	6,673,458	6,734,370
SUPER 7'S SLINGO	6,602,711	11,793,069
SUPER CROSSWORD	6,102,470	21,922,125
POKER SHOWDOWN	6,036,415	15,611,180
HOLIDAY GREETINGS	5,970,196	-
MASSIVE CASH	5,850,024	15,010,855
ELECTRIC 5s	5,611,372	-
QUARTER MILLION CROSSWORD	5,544,717	-
GEM 7s	5,448,210	-
PLANTS VS. ZOMBIES	5,418,223	-
TRIPLE TRIPLER	5,283,462	-
DUBBLE BUBBLE BINGO	4,902,208	1,683,012
MONOPOLY MILLIONAIRE	4,853,490	12,941,890
\$250,000 CROSSWORD	4,800,880	-
CLASSIC BINGO	4,790,826	-
TAKE ME OUT TO THE BALLGAME	4,686,936	3,728,408
BINGO STAR TRIPLER	4,457,970	-
3X CASH	4,356,268	-
THE GOLDEN TICKET	4,123,240	14,273,815
BINGO TIMES 10	3,853,505	17,333,250
5X MONEY	3,673,748	-
SPRING DOUBLER	3,668,652	5,127,388
7/11/2021	3,664,748	-
FANTASY BLACK JACK	3,633,032	14,268,635
MONEY MANIA	3,484,840	7,498,920
DOUBLE BLACKJACK	3,450,112	-
\$1,000,000 LAS VEGAS GAME SHOW	3,387,622	8,203,280
SUPER TIC TAC TOE	3,155,271	14,854,464
DIAMOND SPECTACULAR	3,033,740	26,215,080
LUCKY DUCK DOUBLER	2,890,748	4,967,457
ZODIAC MATCH	2,816,304	5,462,900
GOLD RUSH	2,683,632	9,265,848
FROGGER	2,552,991	6,650,856
CASINO CASH	2,199,614	15,139,115
FATHER'S DAY	2,124,424	1,324,989
DOUBLE DOLLARS	1,824,648	8,391,152
WIN FOR LIFE	1,752,984	16,501,800

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

SCHEDULE OF INSTANT GAME REVENUES

	Years Ended June 30,	
	2014	2013
LUCKY HORSESHOE BINGO	1,618,569	14,764,353
BLACKJACK TRIPLER	1,461,330	8,330,285
MOTHER'S DAY	1,384,974	3,038,997
CASH COW	1,326,184	7,003,468
BULLSEYE BINGO	1,286,793	7,635,750
PACK MAN CASH	1,167,766	6,392,644
HOT DICE	1,103,890	-
LOOSE CHANGE	1,086,945	-
STARRY NIGHT	1,066,326	5,567,132
FOOTBALL BLITZ	1,035,984	5,312,104
RED HOT HEARTS	910,626	8,864,412
BIRTHDAY WISHES	847,888	8,700,802
BIG MONEY SPECTACULAR	812,710	33,982,446
\$50 SHADES OF GREEN	718,704	8,727,160
SKEE-BALL	654,966	4,173,732
DINER DOUBLER	639,128	4,084,794
DOUBLE SIDED DOLLARS	483,470	19,768,035
JINGLE BELL BINGO	432,291	10,146,672
\$50 FALL CLEANUP	370,614	11,570,462
GOLD MINE	257,748	3,439,930
CROSSWORD	254,418	41,825,511
TIC TAC SNOW	215,770	7,980,248
SUPER CROSSWORD	196,820	27,375,685
MARTI - MONEY	157,554	4,435,122
TRIPLING RED 7s	151,784	10,758,518
LUCKY TIMES 20	85,525	21,496,950
CLASSIC BINGO	83,520	20,240,484
10X THE MONEY	77,290	24,790,000
DIAMOND SPECTACULAR	75,440	29,782,920
HOLIDAY CASH	64,664	7,844,780
WINNER WISHES	64,020	18,279,830
HOLIDAY LUCKY TIMES 10	59,254	11,314,084
BIG MONEY SPECTACULAR	38,974	35,938,624
\$100,000,000 SPECTACULAR	26,130	116,903,210
SUPER CROSSWORD	22,200	24,106,140
STOCKING STUFFER	20,643	5,779,062
BIG MONEY SPECTACULAR	300	25,351,298
CROSSWORD	300	41,522,010
EXTREME RICHES	-	(100)
BINGO CONNECT	-	(895)
SUPER CASH BLAST	-	(320)
MOTHER'S DAY	-	(66)
FATHER'S DAY	-	(166)
BIG LEAGUE BASEBALL	-	(300)
GREAT GOLDEN 7s	-	300
MATRI-MONEY (B)	-	(328)
CRUISE FOR CASH (ROYAL CARIBBEAN)	-	(2,320)
BLAZING 7s BINGO TRIPLER	-	300
DOUBLE DOLLARS	-	(500)
\$100 HARVEST	-	(846)

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

SCHEDULE OF INSTANT GAME REVENUES

	Years Ended June 30,	
	2014	2013
EAGLES	-	(340)
MULTI-PRIZE BINGO	-	750
RUBY RED SLINGO	-	(1,620)
CHAMPIONSHIP POKER 6TH ED	-	(160)
DICE	-	112,930
WIN FOR LIFE (A14)	-	(300)
\$100,000,000 SPECTACULAR	-	300
SURPRISE PACKAGE	-	(300)
WINTER \$50'S	-	(300)
WINNING STREAK	-	(1,275)
EMERALD 7'S	-	(300)
\$500 CELEBRATION	-	155,752
SUPER TIC TAC TOE	-	231
LUCKY DUCK DOUBLER	-	(320)
\$50 SMACKERS	-	(900)
HOLD'EM POKER	-	(600)
TRIPLE DOLLARS	-	(1,836)
CLASSIC BLACK	-	(2,155)
CLOVERS & CASH DOUBLER	-	(18)
CLASSIC BINGO (C)	-	(324)
MINUTE TO WIN IT	-	(1,650)
LUCKY LINES	-	(1,305)
LUCKY TIMES 10	-	(300)
BIG MONEY BINGO	-	(360)
MOTHER'S DAY	-	(321)
GOLD RUSH	-	(600)
FATHER'S DAY	-	(1,152)
PLAY BALL	-	307,290
SUPER CROSSWORD (AC)	-	(300)
BIG MONEY SPECTACULAR	-	300
CROSSWORD (BD)	-	(69)
WIN FOR LIFE (A14)	-	(678)
STAR SPANGLED DOUBLER	-	(3,418)
FIREFLY \$50s	-	(340)
POKER TOURNEY	-	257,605
CROSSWORD (BE)	-	(561)
CASH CAB	-	(1,654)
BLUEBERRY 7s	-	226
POKER EXPRESS	-	127,630
MONEY MANIA	-	454,470
TETRIS TRIPLER	-	213,105
\$100,000,000 SPECTACULAR	-	454,200
SUPER CROSSWORD	-	(840)
DOUBLE YOUR LUCK	-	58,545
CASH RECEIVER	-	649,786
CHAMPIONSHIP POKER, NEW ED.	-	509,285
LUCKY BINGO TRIPLER	-	115,428
BLACKJACK DOUBLER	-	529,624
HOLIDAY LUCKY TIMES 10	-	58,160
CLASSIC BINGO (D)	-	1,321,402

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

SCHEDULE OF INSTANT GAME REVENUES

	Years Ended June 30,	
	2014	2013
HOLIDAY SPECTACULAR	-	3,129,665
HAPPY HOLIDAYS	-	(2,079)
BIG MONEY SPECTACULAR	-	(300)
SUPER CROSSWORD	-	(665)
CROSSWORD	-	34,821
ACES	-	2,021,192
WIN FOR LIFE	-	872,265
SUPER CROSSWORD	-	54,565
BIG MONEY SPECTACULAR	-	61,800
CROSSWORD	-	915,318
\$50 BLOSSOM	-	3,205,430
Xs AND Os MOM	-	1,225,371
SUPER CROSSWORD	-	806,425
BIG MONEY SPECTACULARR	-	1,281,962
CROSSWORD	-	20,647,665
SUPER CROSSWORD	-	9,927,435
SUPER CROSSWORD	-	22,877,815
GREAT BIG BINGO	(5)	6,070,335
MONOPOLY (2011)	(45)	227,355
BLACK CHERRY TRIPLER	(78)	1,789,947
HOLIDAY COUNTDOWN	(159)	584,499
BETTY BOOP	(170)	1,347,326
LUCKY 7S CASINO	(210)	1,419,455
CASH IN A FLASH	(300)	68,579
BIRTHDAY WISHES	(300)	363,434
WHEEL OF FORTUNE	(300)	2,422,670
ZOMBIE TRIPLER	(300)	83,905
FREEZIN' \$50S	(300)	879,454
HOLD'EM POKER	(300)	5,452,750
MASSIVE MONEY MATCH	(300)	5,526,205
10X CASH	(300)	1,069,610
CASH SOUNDS	(306)	1,962,800
LUCKY TWELVES	(308)	961,128
\$500 FALL FRENZY	(324)	1,277,928
BEJWELED MONEY MULTIPLIER	(327)	613,695
BIG MONEY SPECTACULAR	(378)	35,084,702
TRIPLE WIN	(380)	1,570,390
\$300,000 DOUBLE DOWN	(435)	1,502,485
SUPER CROSSWORD	(435)	23,705,265
\$1000 DOWNPOUR	(600)	1,618,140
SHAMROCK 7S	(600)	728,004
HOLD'EM POKER	(600)	9,862,425
DOUBLE DIAMONDS	(672)	1,208,356
SUPER 6'S	(715)	1,362,330
DOUBLE IT (C)	(752)	2,411,627
DRAGON'S FORTUNE	(805)	2,952,815
CASH FARMER	(981)	2,496,261
STRAWBERRY 7'S	(1,248)	8,924,516
LOTERIA	(1,356)	8,506,509
WIN FOR LIFE	(1,365)	16,043,805

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

SCHEDULE OF INSTANT GAME REVENUES

	Years Ended June 30,	
	2014	2013
BIG MONEY SPECTACULAR	(1,390)	35,468,678
MAD MONEY	(1,455)	5,555,732
THE NEW ROYALS	(1,570)	1,640,680
SNAKE EYES	(1,686)	3,069,792
CROSSWORD	(1,749)	41,405,919
LUCKY TIMES 10	(1,906)	8,799,118
SUPER 7 SLOTS	(2,125)	4,306,275
10X CASH	(2,130)	24,850,630
RED LINE BINGO	(2,140)	17,444,155
KISSES & CAASH	(2,302)	1,849,482
CHAMPIONSHIP POKER	(2,685)	21,867,760
PLANTS V. ZOMBIES	(2,846)	5,537,856
COSMIC MATCH	(3,420)	1,232,984
\$100 HOMERS	(4,552)	4,060,464
FATHER'S DAY	(5,206)	2,632,421
PRIOR YEAR GAME	(12,008)	(20,019)
	<u>\$ 1,531,771,568</u>	<u>\$ 1,474,285,065</u>

STATE OF NEW JERSEY, DEPARTMENT OF TREASURY, DIVISION OF STATE LOTTERY
 SCHEDULE OF ADMINISTRATIVE EXPENSES

	Years ended June 30.	
	2014	2013
Salaries	\$ 6,421,066	\$ 8,871,554
Printing and office supplies	66,262	76,910
Vehicular supplies	1,206	1,410
Household and clothing	604	1,377
Travel	61,352	224,560
Telephone	231,439	256,000
Postage	74,376	59,000
Data processing	1,054,993	825,873
Household and security	217,082	200,955
Professional services	535,886	2,187,300
Advertising	5,204,308	20,736,101
Maintenance - building and grounds	12,931	8,952
Maintenance - office equipment	14,595	14,760
Rent - building and grounds	1,127,424	1,070,081
Rent - central motor pool	92,284	110,823
Vehicular equipment	99,193	28,000
Other equipment	7,649	7,927
Information processing equipment	108,005	1,479
Amortization expense	52,668	99,159
Office of information technology fees	<u>494,254</u>	<u>494,254</u>
Total Administrative Expenses	<u>\$15,877,577</u>	<u>\$35,276,475</u>

STATE OF NEW JERSEY, DEPARTMENT OF TREASURY, DIVISION OF STATE LOTTERY
 SCHEDULE OF NORTHSTAR NJ NET INCOME TARGETS

Year	Fiscal Year	Net Income Target	
Year 1 (Stub Year)	2014	\$ 760,897,061	(Prorated)
Year 2	2015	1,047,000,000	
Year 3	2016	1,060,000,000	
Year 4	2017	1,070,000,000	
Year 5	2018	1,080,000,000	
Year 6	2019	1,090,300,000	
Year 7	2020	1,102,300,000	
Year 8	2021	1,114,400,000	
Year 9	2022	1,125,600,000	
Year 10	2023	1,136,800,000	
Year 11	2024	1,148,200,000	
Year 12	2025	1,159,600,000	
Year 13	2026	1,171,200,000	
Year 14	2027	1,182,900,000	
Year 15	2028	1,194,700,000	
Year 16	2029	1,206,600,000	