

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

Financial Statements  
and Supplementary Information

June 30, 2008 and 2007

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

Table of Contents

June 30, 2008 and 2007

	<u>Page Number</u>
<b>INDEPENDENT AUDITORS' REPORT</b> .....	1-2
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b> .....	3 - 6
<b>FINANCIAL STATEMENTS</b>	
STATEMENTS OF NET ASSETS.....	7
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS.....	8
STATEMENTS OF CASH FLOWS.....	9
NOTES TO FINANCIAL STATEMENTS.....	10-15
<b>SUPPLEMENTARY INFORMATION</b>	
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS BUDGET AND ACTUAL.....	16
SCHEDULES OF INSTANT GAME REVENUES.....	17-24
SCHEDULES OF ADMINISTRATIVE EXPENSES.....	25
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 <i>GOVERNMENT AUDITING STANDARDS</i> .....	26-27

## INDEPENDENT AUDITORS' REPORT

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

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 June 30, 2008 and 2007. These financial statements are the responsibility of the Division of State Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State of New Jersey, Department of Treasury, Division of State Lottery at June 30, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2008 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.

PENNSYLVANIA OFFICE:  
86 BUCK ROAD  
HOLLAND, PA 18966  
TEL 215-355-4860  
FAX 215-825-8110

\* CPA USA NETWORK  
\* AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS  
\* NEW JERSEY SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS  
\* NEW YORK SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS  
\* PENNSYLVANIA INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS  
\* PRIVATE COMPANIES PRACTICE SECTION  
\* CENTER FOR PUBLIC COMPANY AUDIT FIRMS  
\* REGISTERED WITH THE PCAOB  
\* AN INDEPENDENTLY OWNED MEMBER OF THE  
RSM MCGILDRAY NETWORK

P.O. Box 7648 • Princeton, NJ 08543-7648 • 609.689.9700 • Fax 609.689.9720

[www.mercadien.com](http://www.mercadien.com)

45 YEARS OF SERVICE TO THE COMMUNITY

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

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

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

*Mercaderes, PC*  
*Certified Public Accountants*

November 19, 2008

## **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, 2008 and 2007. This statement was prepared by management and should be read in conjunction with the financial statements and notes hereto, which follow this section.

The Division of State Lottery was established in 1970 pursuant to the "State Lottery Law," N.J.S.A. 5:9-1 et seq. The Division of State Lottery operates within the Department of Treasury of the State of New Jersey. The New Jersey Lottery Commission is a seven-member board, appointed by the Governor, authorized and empowered to promulgate rules and regulations in the operation of the Lottery. The "State Lottery Law" also mandates that a minimum of 30% of gross revenues from ticket sales be allocated for contributions to state aid for education and state institutions (N.J.S.A. 5:9-7a (11)).

The Division of State Lottery licenses over 6,200 retailers throughout the State of New Jersey to act as retailers in the sale of New Jersey Lottery tickets. Lottery retailers receive compensation in the form of commissions on each ticket sold or validated. The Division of State Lottery also contracts with various ticket vendors in the production, distribution and management of lottery products.

- Gtech Corporation is contracted to provide ticket sales through the online terminal network and the warehousing and distribution of instant tickets and promotional materials.
- Pollard Bank Note, Scientific Games and Gtech Printing are contracted to print and support instant game products.
- Verizon Communications is contracted to provide digital communication between the Division of State Lottery's 6,200 sales terminals and the Gtech data center.

The Division of State Lottery offers various products for sale with prize awards ranging from \$1.00 to annuity prizes in excess of \$100 million. The various products sold are:

- Instant Games
- Pick 3 (Including Pick 3 Instant Match)
- Pick 4 (Including Pick 4 Instant Match)
- Jersey Cash 5
- Pick 6 Lotto
- Mega Millions
- Raffle Games

### **FINANCIAL HIGHLIGHTS**

The Division of State Lottery's financial position at June 30, 2008 and 2007, consisted of total assets of \$838 million and \$923 million, respectively, and total liabilities of \$816 million and \$913 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, 2008 and 2007, were \$664 million and \$739 million, respectively. Net assets increased from \$11 million in fiscal year 2007 to \$23 million in 2008 because of an increase primarily consisting of restricted net assets (unclaimed prize reserves).

## 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, 2008 and 2007, statements of revenues, expenses and changes in net assets for the years ended June 30, 2008 and 2007, and statements of cash flows for the years ended June 30, 2008 and 2007. 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,	
	2008	2007
Current Assets	\$ 313	\$ 330
Deposit Fund Contracts	525	593
Total Assets	838	923
Current Liabilities	290	318
Non-Current Liabilities	526	594
Total Liabilities	816	912
Restricted Net Assets	20	8
Unrestricted Net Assets	3	3
Total Net Assets	\$ 23	\$ 11

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 \$148 million and \$155 million at June 30, 2008 and 2007, 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 \$664 million and \$739 million as of June 30, 2008 and 2007, respectively. The Division of State Lottery has annuity investments with twelve (12) insurance companies. The total market value of the United States Treasury securities was \$39 million and \$38 million at June 30, 2008 and 2007, respectively. The annuity prizes due in fiscal years 2009 and beyond totaled \$525 million and represent 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 \$49 million and \$62 million as of June 30, 2008 and 2007, respectively. Also, \$138 million was due to annuity winners in fiscal year 2008.

Non-current liabilities represent annuity prize awards due in fiscal years 2009 and beyond 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,	
	2008	2007
Restricted (Unclaimed Prize Reserves)	\$ 20	\$ 8
Unrestricted	3	3
Total Net Assets	<u>\$ 23</u>	<u>\$ 11</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,	
	2008	2007
Operating revenues		
Ticket sales	\$ 2,538	\$ 2,351
Forfeited prizes	40	40
Miscellaneous income	1	1
Total operating revenue	<u>2,579</u>	<u>2,392</u>
Operating expenses		
Prize expenses	1,471	1,359
Bad debt expense	1	1
Administration expense	23	28
Retailer commissions	141	131
Vendor fees	44	45
Networking fees	9	7
Drawing broadcast fees	1	1
Total operating expenses	<u>1,690</u>	<u>1,572</u>
Operating income	889	820
Investment income	5	6
Income before transfers	894	826
Operating transfers - state contributions	882	828
Increase/(decrease) in net assets	<u>\$ 12</u>	<u>\$ (2)</u>

The Division of State Lottery awarded over \$1.471 billion in prize awards in fiscal year 2008 and approximately \$1.359 billion in fiscal year 2007. Over 106 million winning tickets were validated and paid in fiscal year 2008, and over 102 million were validated and paid in fiscal year 2007.

## 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 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 \$53 million in fiscal year 2008 and \$52 million in fiscal year 2007. Drawing broadcast fees were approximately \$1 million for both 2008 and 2007.

The Division of State Lottery's administrative expenses for the fiscal years 2008 and 2007 totaled \$23 million and \$28 million, respectively. These administrative expenses include salaries, advertising, auditing services, rent, security, data processing services, office supplies and attorney general fees. The majority of the decrease in administrative expenses for fiscal year 2008 was for advertising.

The Division of State Lottery is required by State of New Jersey law to contribute at least 30% of gross revenues from ticket sales to the State of New Jersey Treasury for state aid for education and state institutions. As a result of various sales initiatives, game enhancements, and efficient operations, the Division of State Lottery contributed \$882 million, 34% of total revenues, in fiscal year 2008 and \$828 million, 35% of total revenues, in fiscal year 2007. The majority of the increase in contributions to the State is attributed to higher jackpots for Mega Millions and Jersey Cash 5 games over the previous fiscal year and a significant increase in sales of instant games.

#### Statements of Cash Flows

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

	<u>Year Ended June 30,</u>	
	<u>2008</u>	<u>2007</u>
Cash flows provided by operating activities	\$ 872	\$ 819
Cash flows used in non-capital financing activities	(884)	(819)
Cash flows used in investing activities	12	(3)
Net increase (decrease) in cash	<u>\$ -</u>	<u>\$ (3)</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:

- Free play coupons
- Pick 3 "Green Ball" double draw
- Pick 4 "Red Ball" double up
- Various instant games
- VIP club

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.

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

**STATEMENTS OF NET ASSETS**

	June 30,	
	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
Current Assets		
Cash	\$ 95,288	\$ 293,442
Accounts receivable, net of allowance for doubtful accounts of \$1,850,000 in 2008 and \$1,250,000 in 2007	14,932,344	15,617,256
Deferred Expenses	11,551,529	12,702,643
Investments		
Deposit Fund Contracts	138,396,004	146,139,504
State of New Jersey Cash Management Fund	<u>147,967,811</u>	<u>154,969,265</u>
Total current assets	312,942,976	329,722,110
Non-Current Assets		
Investments - deposit fund contracts	<u>525,342,844</u>	<u>593,234,557</u>
Total non-current assets	<u>525,342,844</u>	<u>593,234,557</u>
Total assets	<u>\$ 838,285,820</u>	<u>\$ 922,956,667</u>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 18,491,838	\$ 23,993,237
Obligation for unpaid prize awards	48,606,666	61,916,617
Installment prize awards	138,396,004	146,139,504
Due to State of New Jersey - education and state institutions	<u>84,058,235</u>	<u>86,126,155</u>
Total current liabilities	<u>289,552,743</u>	<u>318,175,513</u>
Non-Current Liabilities		
Compensated absences	1,028,933	1,120,208
Installment prize awards	<u>525,342,844</u>	<u>593,234,557</u>
Total non-current liabilities	<u>526,371,777</u>	<u>594,354,765</u>
Total liabilities	<u>815,924,520</u>	<u>912,530,278</u>
<b>NET ASSETS</b>		
Restricted for prize awards or contributions for aid to education and state institutions	19,538,975	7,599,765
Unrestricted	<u>2,822,325</u>	<u>2,826,624</u>
Total net assets	<u>\$ 22,361,300</u>	<u>\$ 10,426,389</u>

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

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

	Year ended June 30,	
	2008	2007
Operating revenues		
Ticket Sales		
Pick 3	\$ 457,008,357	\$ 448,807,318
Pick 4	265,278,183	256,009,771
Jersey Cash 5	132,499,801	119,265,344
Pick 6 Lotto	86,222,060	87,448,520
Mega Millions	299,215,366	236,629,538
Raffle sales	14,851,700	10,000,000
Instant games	1,283,985,517	1,193,119,013
Sales discounts	(584,328)	(387,672)
Total ticket sales	2,538,476,656	2,350,891,832
Other revenues		
Forfeited prizes	39,676,417	40,416,837
Miscellaneous	1,154,012	1,026,409
Total operating revenues	2,579,307,085	2,392,335,078
Operating expenses		
Prize expenses	1,471,117,973	1,359,400,245
Amortization expense	36,151	34,081
Bad debt expense	600,000	600,000
Administrative expenses	22,892,295	28,427,879
Retailer commissions	141,385,821	131,242,482
Online vendor fees	26,502,830	27,992,821
Instant vendor fees	17,379,142	16,690,120
Multi-state fees	25,906	14,939
Online network fees	9,468,948	6,917,906
Drawing broadcast fees	1,141,419	1,141,548
Total operating expenses	1,690,550,485	1,572,462,021
Operating income	888,756,600	819,873,057
Non-operating revenue		
Interest	5,236,546	6,177,216
Income before transfers out	893,993,146	826,050,273
Transfers out - contributions for state aid to education and state institutions	882,058,235	828,326,155
Change in net assets	11,934,911	(2,275,882)
Net assets, beginning of year	10,426,389	12,702,271
Net assets, end of year	\$ 22,361,300	\$ 10,426,389

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

**STATEMENTS OF CASH FLOWS**

	<u>Year ended June 30,</u>	
	<u>2008</u>	<u>2007</u>
Cash Flows from Operating Activities		
Sales to customers	\$ 1,263,350,327	\$ 1,162,505,685
Payments for prize awards	(341,227,487)	(285,197,563)
Payments for vendor commissions and fees	(53,714,391)	(52,993,342)
Payments to suppliers	(23,946,432)	(29,898,895)
Other payments	(81,521)	(187,098)
Cash flows from annuity operations		
Annuity receipts	138,434,504	145,634,710
Purchases of annuities	(8,046,448)	(16,389,585)
Payments of annuity prizes	<u>(103,078,551)</u>	<u>(104,714,436)</u>
Net cash provided by operating activities	<u>871,690,001</u>	<u>818,759,476</u>
Cash Flows used in Non-Capital Financing Activities		
Contributions for aid to education and state institutions	<u>(884,126,155)</u>	<u>(818,355,935)</u>
Cash Flows from Investment Activities		
Cash Management Fund proceeds	1,166,430,000	1,121,854,000
Cash Management Fund purchases	<u>(1,154,192,000)</u>	<u>(1,125,192,600)</u>
Net cash provided by (used in) investing activities	<u>12,238,000</u>	<u>(3,338,600)</u>
Net decrease in cash	(198,154)	(2,935,059)
Cash, beginning of year	293,442	3,228,501
Cash, end of year	<u>\$ 95,288</u>	<u>\$ 293,442</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating Income	\$ 888,756,600	\$ 819,873,057
Changes in assets and liabilities		
Accounts receivable	684,912	(1,876,940)
Investments - deposit fund contracts	75,635,213	59,457,269
Other assets	1,151,114	2,567,725
Accounts payable and accrued expenses	(5,501,400)	373,879
Obligation for unpaid prize awards	(88,945,163)	(61,757,182)
Compensating absences	<u>(91,275)</u>	<u>121,668</u>
Net cash provided by operating activities	<u>\$ 871,690,001</u>	<u>\$ 818,759,476</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 the Treasury of the State of New Jersey. The Commission consists of the State Treasurer and six public members and is authorized and empowered to promulgate rules and regulations regarding the conduct of lottery games, including the price or prices of tickets, the number and size of prizes on winning tickets, the licensing of retailers, and the apportionment of ticket revenues. The Division of State Lottery's financial statements are presented as those of an enterprise fund and include the operations for which the Division of State Lottery is financially accountable and exercises oversight responsibility.

**Basis of Accounting**

The Division of State Lottery prepares its financial statements using the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred. Governmental Accounting Standards Board ("GASB") Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that Use Proprietary Fund Accounting*, provides proprietary activities with a choice of authoritative guidance issued after November 30, 1989. The Division of State Lottery has elected to follow GASB pronouncements exclusively after that date.

**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.

**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.

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

**NOTES TO FINANCIAL STATEMENTS**

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

**Installment Prize Awards and Prize Expenses**

Installment prize awards are recorded based upon the present value of an annuity at terms to yield a series of future payments needed to meet the obligations of the Division of State Lottery for prize disbursements. The Division of State Lottery purchases annuity contracts from insurance companies and U.S. government securities to fund its liability for installment prize awards. An annuity contract represents an obligation by an insurance company to provide a fixed series of payments over a specified period. Annuity contracts are subject to credit risk. The Division of State Lottery seeks to control its exposure to such credit risk by purchasing annuity contracts only from insurance companies that meet certain minimum standards. Such standards include a minimum required claims payment rating from Standard and Poor's Corporation, a private rating agency, of at least "AA." However, due to the long-term nature of these contracts, the credit quality of the issuer is subject to change. Amounts recorded as prize expense reflect the cost of annuity contracts and U.S. government securities necessary to satisfy stated prize awards plus any single payment awards.

**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, 2008 and 2007, leasehold improvements were \$279,930 and \$279,930, respectively. For the years ended June 30, 2008 and 2007, amortization expense was \$36,151 and \$34,081, respectively.

**Net Assets**

**Restricted**

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

**Unrestricted**

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

**STATE OF NEW JERSEY, DEPARTMENT OF TREASURY, 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,” and various raffle games on the drawing date.
- Instant games are recognized daily, based upon the settlement of instant game inventory packs by selling retailers. Sales adjustments are recorded based upon final reconciliations prepared after the termination of a lottery instant game.
- Sales discounts are recorded for the sales value of tickets provided to retailers at no cost to be used for promotional purposes.

**Forfeited Prizes**

The State Lottery Law requires that prizes not claimed within one year from the date of the drawing for machine games and within one year from the date of the game’s closing for instant games be forfeited. Seventy percent of forfeited prizes are to be maintained in a reserve for prize awards and are available to augment future prize awards or, at the discretion of the executive director, to augment the Division of State Lottery’s contribution for state aid for education and state institutions.

The remaining 30% is unrestricted. Forfeited prizes are recognized as “Other Revenues” during the period forfeited. For the years ended June 30, 2008 and 2007, forfeited prizes were \$39,676,417 and \$40,416,837, 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, 2008 and 2007, aggregated \$882,058,235 and \$828,326,155, respectively, of which \$84,058,235 and \$86,126,155 was due to the State Treasury at June 30, 2008 and 2007, 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.

**STATE OF NEW JERSEY, DEPARTMENT OF TREASURY, 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.

**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, 2008 and 2007. The Division's deposits with Wachovia are insured by the Federal Deposit Insurance Corporation up to \$100,000.

	Year Ended June 30,	
	2008	2007
Wachovia	\$ 95,288	\$ 293,442
New Jersey Cash Management Fund	147,967,811	154,969,265
Total	<u>\$ 148,063,099</u>	<u>\$ 155,262,707</u>

The New Jersey Cash Management Fund is a common trust fund administered by the Department of the Treasury, Division of Investments. Securities in the fund are insured, registered or held by the Division of Investment or its agents in the Division's name. Since the New Jersey Cash Management Fund is a pooled investment and the cash balance is guaranteed by the State of New Jersey, the Commission's cash and investments are not subject to custodial credit risk under GASB Statement No. 40.

**C. FUTURE INSTALLMENT PRIZE AWARDS**

The Division purchases annuity, or deposit fund contracts, from insurance companies and U.S. government securities to fund its liability for future installment prize awards. Generally, annuity contracts fund instant product annuity prizes, and U.S. government securities fund annuity prizes for Pick 6 and Mega Millions. 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, 2008 and 2007, the Division held U.S. government securities totaling \$39,001,921 and \$37,519,143, respectively, which are included in investments - deposit fund contracts.

**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 seeks to control its exposure to such credit risk by purchasing annuity contracts only from insurance companies that meet certain minimum standards. Such standards include a minimum required claims payment rating from Standard and Poor's Corporation, a private rating agency, of at least "AA." However, due to the long-term nature of these contracts, the credit quality of the issuer is subject to change. As of June 30, 2008, three companies with annuity contracts totaling approximately \$58,600,000 had a rating under "AA". At June 30, 2008 and 2007, the Division held insurance company annuity contracts totaling \$624,736,927 and \$701,854,918, respectively, issued through twelve insurance companies, which are due in installments ranging from ten years to the lifetime of the recipient. A significant portion (in excess of 5% of total) of the Division's investment in annuity contracts at such date is concentrated among the following six companies:

- |                               |                      |
|-------------------------------|----------------------|
| • Ohio National Life          | • Metropolitan Life  |
| • New York Life Insurance Co. | • Sun Life Assurance |
| • Mutual of America           | • Protective Life    |

The estimated fair value of annuity contracts approximates the carrying value reflected in the accompanying statements of net assets at June 30, 2008 and 2007.

**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.

**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 6,200 online locations where all games are sold. GTECH Corporation is responsible for operating the online games and providing courier services under a contract which has been extended until August 2009.

**Operating Leases**

The Division of State Lottery leases certain office facilities under non-cancelable operating lease agreements expiring through fiscal year 2013.

Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2009	\$ 891,500
2010	900,458
2011	900,458
2012	902,871
2013	581,579
2014	154,883
2015	154,883
2016	154,883
2017	129,069
	<u>\$ 4,770,584</u>

Rent expense for office facilities at June 30, 2008 and 2007, was \$959,967 and \$1,183,496, respectively.

## **SUPPLEMENTARY INFORMATION**

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

**SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - BUDGET  
AND ACTUAL**  
Year ended June 30, 2008

	Budget (unaudited)	Actual	Variance (unfavorable) favorable
Operating revenues			
Ticket Sales			
Pick 3	\$ 457,363,000	\$ 457,008,357	\$ (354,643)
Pick 4	258,802,000	265,278,183	6,476,183
Jersey Cash 5	124,100,000	132,499,801	8,399,801
Pick 6 Lotto	89,250,000	86,222,060	(3,027,940)
Mega Millions	286,000,000	299,215,366	13,215,366
Raffle sales	15,000,000	14,851,700	(148,300)
Instant games	1,194,990,000	1,283,985,517	88,995,517
Sales discounts	(2,000,000)	(584,328)	1,415,672
Total ticket sales	2,423,505,000	2,538,476,656	114,971,656
Other income			
Forfeited prizes	29,989,000	39,676,417	9,687,417
Miscellaneous	1,200,000	1,154,012	(45,988)
Total operating revenues	2,454,694,000	2,579,307,085	124,613,085
Operating expenses			
Prize expenses	1,390,319,450	1,471,117,973	80,798,523
Amortization expense	25,044	36,151	11,107
Bad debt expense	-	600,000	600,000
Administration expenses	24,568,000	22,892,295	(1,675,705)
Retailer commissions	133,402,775	141,385,821	7,983,046
Online vendor fees	24,536,678	26,502,830	1,966,152
Instant vendor fees	16,849,359	17,379,142	529,783
Multi-state fees	50,000	25,906	(24,094)
Online network fees	7,835,720	9,468,948	1,633,228
Drawing broadcast fees	1,340,000	1,141,419	(198,581)
Total operating expenses	1,598,927,026	1,690,550,485	91,623,459
Operating income	855,766,974	888,756,600	32,989,626
Non-operating revenue			
Interest	3,500,000	5,236,546	1,736,546
Income before transfers out	859,266,974	893,993,146	34,726,172
Contributions for state aid to education and state institutions	859,000,000	882,058,235	23,058,235
Change in net assets	266,974	11,934,911	11,667,937
Net assets, beginning of year	10,426,389	10,426,389	-
Net assets, end of year	<u>\$ 10,693,363</u>	<u>\$ 22,361,300</u>	<u>\$ 11,667,937</u>

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

**SCHEDULES OF INSTANT GAME REVENUES**

	Year Ended June 30,	
	2008	2007
CROSSWORD (AM)	\$ 43,621,653	\$ -
CROSSWORD (AL)	43,265,229	-
CROSSWORD (AN)	41,862,729	-
CROSSWORD (AK)	41,552,097	990,300
CROSSWORD (AO)	39,941,187	-
NEW JERSEY POKER	24,705,900	-
HIGH STAKES POKER	24,193,250	731,700
BIG MONEY SPECTACULAR (V)	24,090,846	-
\$1,000,000 EXPLOSION	23,607,400	-
BIG MONEY SPECTACULAR (W)	23,530,282	-
BIG MONEY SPECTACULAR (T)	23,127,002	-
BIG MONEY SPECTACULAR (U)	22,806,358	-
BIG MONEY SPECTACULAR	22,746,874	-
BINGO ZONE	22,128,990	-
SUPER CROSSWORD (I)	21,883,495	-
SUPER CROSSWORD (J)	21,816,215	-
BIG MONEY SPECTACULAR (X)	21,311,058	-
SUPER CROSSWORD (L)	20,383,655	-
SUPER CROSSWORD (K)	20,137,480	-
BINGO ZONE (B)	19,772,934	-
DREAMS OF GOLD	19,697,085	-
CASINO MULTIPLIER	19,298,600	-
DEAL OR NO DEAL	18,607,820	-
\$250,000 ULTIMATE BLACKJACK	18,117,970	-
JACK OF SPADES	17,760,400	-
CHAMPIONSHIP POKER (3RD ED)	17,727,580	-
WIN FOR LIFE (A8)	16,586,895	-
SUPER CROSSWORD (H)	15,656,245	6,250,500
WIN FOR LIFE (AH)	15,374,430	1,923,243
HIGH ROLLERS	14,928,130	-
WINNING LINE BINGO	14,533,791	-
SLINGO	14,460,468	3,526,902
SUPER 7'S BINGO	14,041,695	1,254,900
HOLIDAY GIFT PACK	13,442,984	-
RED HOT SLINGO	13,159,629	-

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

**SCHEDULES OF INSTANT GAME REVENUES (CONTINUED)**

	Year Ended June 30,	
	2008	2007
BIG BLACKOUT BINGO	13,018,795	-
SILVER COINS	12,796,785	-
GOLD DUST	12,736,350	-
\$1,000,000 FORTUNE	12,373,020	-
SAPPHIRE BLUE 7'S	12,224,858	-
MAGNIFICENT 7'S	12,196,632	-
HOLIDAY LUCKY TIMES 10	11,725,198	-
DEEP SEA DOLLARS	10,940,832	-
50'S FEVER	10,865,876	-
AUTUMN GOLD	10,865,366	-
HOLIDAY TREASURES	9,900,171	-
GOT LUCK?	9,511,826	-
FOOTBALL BLITZ	9,479,328	-
\$250,000 ULTIMATE BLACKJACK (2ND E)	9,165,880	-
BIRTHDAY WISHES (C)	9,023,878	-
HEARTS OF GOLD	8,824,186	-
MILLION DOLLAR DOUBLER	8,297,460	10,404,850
JOKER'S WILD	8,253,040	-
SUPER MATCH 3	8,096,756	-
SUDOKU	8,019,330	9,565,335
MAJOR LEAGUE BASEBALL WINNINGS	7,970,710	8,540,435
CASHINO	7,876,810	11,814,405
LUCKY DUCK DOUBLER	7,866,732	-
SUPER DUPER DOUBLER (C)	7,595,597	-
SUPER DUPER DOUBLER (B)	7,425,573	4,864,788
WILD TIME GOLD	7,270,434	5,297,162
CASH TRIPLER	7,192,597	-
CODE QUEST	7,067,250	5,841,129
\$150,000 BINGO BONANZA	6,875,120	14,926,645
BETTY BOOP	6,748,076	-
LUCKY SIGNS	6,712,082	5,742,016
RAISE THE STAKES	6,710,865	-
FLAMINGO BINGO DOUBLER	6,463,455	-
DOMINOES (B)	6,444,516	9,770,904
MARILYN MONROE	6,385,034	-

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

**SCHEDULES OF INSTANT GAME REVENUES (CONTINUED)**

	Year Ended June 30,	
	2008	2007
DOUBLING GREEN BINGO	6,320,805	10,476,327
CROSSWORD (AP)	6,245,100	-
STAR SPANGLED DOUBLER	6,174,220	1,168,500
WHEEL OF FORTUNE (2008)	6,113,212	-
BREEDERS' CUP GOLD	5,873,454	253,800
MONOPOLY (2008)	5,669,134	-
CASH GARDEN TRIPLER	5,629,894	-
LUCKY MATCH	5,604,544	-
GREAT GOLDEN 8'S	5,506,950	-
CONGRATULATIONS (C) ORANGE	5,466,540	6,548,714
CROSSWORD (AJ)	5,433,624	36,940,296
CREEPY CRAWLY CASH	5,407,233	-
BIG MONEY SPECTACULAR (R)	5,373,474	18,150,786
SUPER CROSSWORD (M)	5,242,865	-
ADVENTURES OF A LIFETIME	4,851,302	1,756,808
LUCKY SPIN	4,405,220	-
KITTY CASH/DOGGY DOUGH	4,372,978	6,405,788
THE DUKE	4,118,994	3,147,964
MOTHER'S DAY	3,658,214	-
7TH INNING STRETCH	3,627,460	-
MATRIMONEY (B)	3,513,676	4,014,606
SUPER TIC TAC TOE	3,491,448	-
WIN FOR LIFE (A9)	3,420,495	-
JACK FROST	3,359,438	8,903,966
SIZZLING SMACKERS	3,330,244	6,413,288
FATHER'S DAY	2,972,850	2,409,223
SILVER 7'S	2,944,318	9,457,562
BIG MONEY SPECTACULAR (Y)	2,661,000	-
PINBALL WIZARD (B)	2,644,920	11,842,776
TIC TAC WILD	2,430,690	8,318,742
INSTANT BINGO (E)	2,420,786	20,022,070
LUNAR BINGO	2,267,091	14,221,176
FATHER'S DAY	2,263,633	-
CARIBBEAN CRUISE POKER	2,020,422	7,800,256
LUCKY STAR DOUBLER	1,949,952	-

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

**SCHEDULES OF INSTANT GAME REVENUES (CONTINUED)**

	Year Ended June 30,	
	2008	2007
LUCKY SHAMROCKS	1,923,482	8,923,244
PIRATE'S GOLD	1,898,044	8,384,010
DEAL OR NO DEAL	1,845,528	9,054,526
SOME LIKE IT HOT	1,795,704	-
FLOWERING 50'S	1,748,212	8,797,386
LUCKY NUMBERS	1,643,046	-
LIBERTY BILLS	1,477,514	5,912,192
MOTHER'S DAY WISHES	1,351,458	4,395,603
CHAMPIONSHIP POKER 2ND EDITION	1,266,250	18,954,200
SPADE INVADERS	1,253,596	3,924,404
LAUREL & HARDY	1,191,158	6,693,554
TREASURE HUNT	1,180,976	4,077,412
MONOPOLY (2006)	1,160,186	9,978,338
POKER SHOWDOWN	1,137,300	-
WIN FOR LIFE (AG)	1,130,688	15,394,674
SUPER CROSSWORD (G)	1,100,460	20,768,915
BIRTHDAY WISHES (B)	1,098,766	9,307,916
SHORE EXCITEMENT	1,082,178	4,675,286
FANTASTIC 5'S	1,024,932	11,163,450
MUSTANG MONEY	627,860	5,648,172
PLAYERS CLUB RICHES	594,540	19,109,330
FIELD & STREAM	567,594	4,900,388
BINGO ZONE C	470,700	-
GOLD RUSH	448,220	18,183,780
DOUBLE WILD CHERRIES	371,015	8,165,031
HARLEY DAVIDSON	366,000	-
HOT TAMALES	345,020	6,872,618
CROSSWORD (AI)	294,876	42,709,407
FOOTBALL FEVER	275,176	5,603,052
BIG MONEY SPECTACULAR (Q)	202,836	23,227,348
LUCKY LINES	154,893	16,657,023
RED HOT TRIPLER	148,250	11,818,418
ROULETTE DOUBLER	132,348	4,148,200
STOCKING STUFFER (B)	122,375	12,384,125
LUCKY DICE MULTIPLIER	120,840	6,352,263

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

**SCHEDULES OF INSTANT GAME REVENUES (CONTINUED)**

	Year Ended June 30,	
	2008	2007
NEW YEAR COUNTDOWN	116,430	10,894,860
BIRTHDAY WISHES (D)	112,500	-
SUPER DUPER DOUBLER	106,935	12,151,657
POKER NIGHT	105,675	21,418,500
CARNIVAL CASH	71,735	5,363,735
PRICE IS RIGHT	52,772	5,165,740
SUPER CROSSWORD (F)	49,660	21,792,525
HOLIDAY LUCKY TIMES 10	33,948	11,897,406
ROULETTE MULTIPLIER	32,334	1,744,308
BIG MONEY SPECTACULAR (P)	31,166	23,385,140
SIZZLING 7'S	30,570	11,974,204
STRIKE IT RICH	28,176	2,413,034
CROSSWORD (AH)	27,885	42,958,089
LUCKY MILLIONS	15,870	18,638,440
THRILLS, CHILLS & BILLS	14,387	5,465,630
INSTANT BINGO (D) TEAL BLUE	12,900	20,333,674
TREASURE CODE	10,095	2,258,748
COSMIC BINGO	9,300	9,095,541
WIN FOR LIFE (AE)	8,400	16,238,850
GOLDEN TICKET	7,200	19,409,555
CHAMPIONSHIP POKER (B)	6,150	19,968,765
BIG SMOOCH	5,700	2,224,220
DOUBLING RED BINGO	5,454	11,710,710
SUPER TIC TAC TOE (B)	5,289	6,840,669
BIG MONEY SPECTACULAR (O)	3,600	24,241,558
SUPER CROSSWORD (E)	2,700	19,936,695
CROSSWORD (AG)	2,700	43,191,969
COOL HAND LOOT	2,326	1,393,296
BIG MONEY SPECTACULAR F	300	1,800
CONGRATULATIONS (B)	300	2,722,052
CROSSWORD (AF)	300	42,134,799
XTREME SIGHTS & SOUNDS	-	(344)
CYBER SLINGO	-	(400)
CYBER SLINGO 5 PACK	-	(749)
WINNING LEGENDS	-	(102)

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

**SCHEDULES OF INSTANT GAME REVENUES (CONTINUED)**

	Year Ended June 30,	
	2008	2007
TETRIS	-	(4,776)
YOUNG & RESTLESS	-	(258)
VINTAGE BINGO	-	(50)
LIFETIME RICHES	-	(305)
HOLD'EM POKER	-	(530)
HOLLYWOOD STARS	-	(600)
SNOW MAGIC	-	(594)
DOUBLE DOUBLER	-	(300)
HOLIDAY COUNTDOWN	-	(300)
PROGRESSIVE BLACKJACK	-	(640)
LUCKY STARS DOUBLE PLAY	-	(873)
CARIBBEAN STUD POKER	-	(324)
HOT SLOTS	-	(645)
SUPER TIC TAC TOE	-	(600)
SHAMROCK TRIPLER	-	(400)
SPRING CASH	-	(576)
KING SIZE CASH	-	17,820
MATRIMONEY	-	16,662
CONGRATULATIONS	-	298
WHO'S ON FIRST	-	(1,204)
MAGIC LINE BINGO	-	237
BIG MONEY SPECTACULAR (I)	-	(20)
DOUBLE YOUR LUCK	-	(900)
LIFETIME RICHES	-	6,362,200
VINTAGE BINGO	-	(602)
ORANGE COUNTY CHOPPERS	-	27,531
LUCKY 7	-	(900)
BACK 9	-	199,680
FATHER'S DAY BONUS	-	(300)
10 TIMES LUCKY (D)	-	(516)
TEXAS HOLD'EM POKER	-	8,910
SINGLE, DOUBLE, TRIPLE PLAY BINGO	-	137,700
MILLION DOLLAR MANIA	-	14,400
FIRECRACKER CASH DOUBLER	-	18,910
DOMINOES	-	313,218

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

**SCHEDULES OF INSTANT GAME REVENUES (CONTINUED)**

	Year Ended June 30,	
	2008	2007
BETTY BOOP	-	40,930
THE NUMBERS GAME	-	(1,664)
DOUBLE YOUR LUCK (C)	-	28,000
WIN FOR LIFE (AD)	-	14,139
24K GOLD	-	28,028
SPICY HOT CASH	-	393,654
RAISE THE STAKES	-	299,660
RUBY RED 7'S	-	6,374
RUN THE TABLE	-	393,140
COSMIC BINGO	-	10,725
ULTIMATE SPORTS GETAWAY	-	39,900
CROSSWORD (AA)	-	(309)
SUPER CROSSWORD	-	(1,505)
LUCKY DOLLARS	-	44,246
WILD CRAZY 8'S	-	28,672
INSTANT BINGO	-	7,292
INSTANT BINGO	-	32,065
CROSSWORD (AB)	-	3,300
BIG MONEY SPECTACULAR K	-	8,100
WHEEL OF FORTUNE (2005)	-	964,408
HOLIDAY LUCKY TIMES 10	-	81,850
HOLIDAY WISHES	-	233,181
BIG MONEY SPECTACULAR (L)	-	109,304
4 LEAF LUCK	-	1,831,012
PINK PANTHER	-	2,076,272
SUPER CROSSWORD	-	45,545
MOTHER'S DAY RICHES	-	1,122,049
CROSSWORD (AD) LIME GREEN	-	407,796
LUCKY TIMES 20	-	6,391,750
SUPER CROSSWORD (C)	-	1,483,100
CROSSWORD (AE) RED	-	9,797,934
SUPER CROSSWORD (D) PURPLE	-	20,245,520
BIG MONEY SPECTACULAR (N) GREEN	-	23,387,652
DOUBLE YOUR LUCK D	(1)	7,749,174
BIG MONEY SPECTACULAR (M) YELLOW	(4)	4,022,934

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

**SCHEDULES OF INSTANT GAME REVENUES (CONTINUED)**

	Year Ended June 30,	
	2008	2007
AUTUMN DOLLARS	(300)	627,884
SLOTS OF CASH	(300)	1,342,066
WIN FOR LIFE (AE) ORANGE	(300)	1,975,554
FLOWERING 50'S	(300)	2,353,574
GOLDEN 7'S	(300)	1,401,730
INSTANT BINGO (C)	(300)	1,752,030
POOL PARTY CASH	(530)	254,776
WILD 7'S CYBER SLINGO	(580)	253,565
BIRTHDAY WISHES	(600)	310,228
COUNT CASHULA	(600)	203,235
STOCKING STUFFER	(600)	119,390
CASH BONANZA	(600)	5,762,080
MAX-A-MILLION	(600)	5,020,350
ZODIAC	(600)	4,383,030
GO FOR THE GREEN	(744)	2,501,036
CROSSWORD (AC) ORANGE	(900)	28,365
CASH CATCHER	(938)	2,884,910
BONUS MILLIONS	(1,160)	4,443,840
SUPER RED MILLIONS	(1,190)	12,719,090
INSTANT BINGO (B) RED	(1,200)	187,874
FATHER'S DAY	(1,200)	2,160,432
ICASH	(1,800)	814,056
OFF ROAD DOUGH	(2,136)	375,072
PRIOR YEAR GAME	(46,432)	(27,436)
	<u>\$ 1,283,985,517</u>	<u>\$ 1,193,119,013</u>

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

**SCHEDULES OF ADMINISTRATIVE EXPENSES**

	<u>Year ended June 30,</u>	
	<u>2008</u>	<u>2007</u>
Salaries	\$ 8,884,248	\$ 8,721,279
Printing and office supplies	344,102	309,761
Vehicular supplies	1,320	546
Household and clothing	4,782	5,564
Other supplies	581	136
Travel	222,211	207,552
Telephone	97,597	97,571
Postage	90,000	90,000
Data processing	379,993	368,796
Household and security	273,856	159,497
Professional services	316,183	286,114
Advertising	11,128,397	16,782,637
Maintenance - building and grounds	4,784	8,835
Maintenance - office equipment	20,767	21,385
Maintenance - vehicles	-	64
Rent - building and grounds	959,967	1,183,496
Rent - central motor pool	94,747	93,360
Rent - other	5,881	5,569
Vehicular equipment	61,047	25,994
Information processing equipment	1,473	13,961
Other equipment	<u>359</u>	<u>45,762</u>
Total administrative expenses	<u>\$22,892,295</u>	<u>\$28,427,879</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 State of New Jersey, Department of Treasury, Division of State Lottery (the "Division of State Lottery") as of June 30, 2008, and have issued our report thereon dated November 19, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A control deficiency in an entity's 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

PENNSYLVANIA OFFICE:  
86 BUCK ROAD  
HOLLAND, PA 18966  
TEL 215-355-4860  
FAX 215-825-8110

- \* CPA USA NETWORK
- \* AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS
- \* NEW JERSEY SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS
- \* NEW YORK SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS
- \* PENNSYLVANIA INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS
- \* PRIVATE COMPANIES PRACTICE SECTION
- \* CENTER FOR PUBLIC COMPANY AUDIT FIRMS
- \* REGISTERED WITH THE PCAOB
- \* AN INDEPENDENTLY OWNED MEMBER OF THE  
RSM MCGladrey NETWORK

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)

Internal Control over Financial Reporting (Continued)

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. We did identify control deficiencies that we determine did not constitute significant deficiencies or material weaknesses and are referenced in SAS 112 letter to the management.

Compliance and Other Matters

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

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

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

November 19, 2008