

# 08 annual report

Veterans ■ Veterans ■ Veterans ■ Veterans ■ Veterans ■  
College Education ■ College Education ■ College Education ■  
School Nutrition Program ■ School Nutrition Program ■  
Veterans ■ Veterans ■ Veterans ■ Veterans ■ Veterans ■  
College Education ■ College Education ■ College Education ■  
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Veterans ■ Veterans ■ Veterans ■ Veterans ■ Veterans ■



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When you play,  
everyone wins...





message from  
the Governor

**Dear Friends,**

Nearly four decades ago, we tried something in New Jersey that only two other States had implemented—the development and creation of a State Lottery. The goal then, as it is now, was to provide revenue to support State educational programs, as well as State institutions. In the many years since, it has exceeded far beyond all initial expectations, generating over \$17 billion for education and institutions—and more than \$882 million of that during FY '08 alone.

Raw numbers, however, do not tell the whole story, or do that story justice. Our Lottery's story gets told every day as a student in one of our K-12 schools participates in the State's School Nutrition Program; it gets told each time another of our State's veterans begin their residence in one of New Jersey's three Veterans' Homes; it gets told on the campus of every college and university in New Jersey, and it gets told again each time a student attending one of those institutions receives tuition assistance. Our Lottery's story is truly New Jersey's story.

It gives me both pride and pleasure to congratulate the New Jersey Lottery on another exceptional year of endeavor and achievement. Dedicated efforts such as theirs truly make a difference in the lives of all New Jerseyans.

Sincerely,

Jon S. Corzine  
Governor

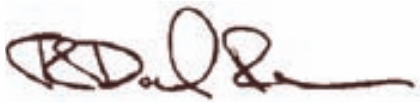
Dear Friends,

*This year marked another year of accomplishment for the New Jersey Lottery.* That's a sentence I never get tired of reading, and I have been reading it in documents for a great number of years. I enjoy reading it because I know that the Lottery's success means the difference for countless persons across our State.

In Fiscal Year 2008, more than \$882 million made the difference for veterans, for college students, for our State's developmentally disabled, and for our schoolchildren. The difference could have been as simple as a lunch from our School Nutrition Program, or as life-changing as a scholarship or tuition assistance that made the possibility of higher education a reality. And in addition to all of this, our local and regional economies reaped the benefits of the more than \$141 million in retailer commissions that were earned by small business and corporate stores here in New Jersey.

The dedication and industry of the New Jersey Lottery extends far beyond the numbers you will see in the pages that follow; it is felt in the lives of persons from all walks of life, in all corners of the State. And that, I think you'll agree, makes all the difference.

Sincerely,



R. David Rousseau,  
State Treasurer



message from  
the Treasurer



message from  
the Chairman

**Dear Friends,**

In the nearly four decades since its inception, the New Jersey Lottery has become so much more than just jackpots and dreams—it has evolved into an exceptionally positive force within our Garden State communities, improving the quality of life for young and old alike.

Whether it is a school lunch program, a potential college freshman receiving a scholarship, or a veteran joining one of New Jersey's three Veterans' Homes communities, these lives—and many more—are directly and positively impacted by the work of the New Jersey Lottery. This year, like years past, has not disappointed; more than \$882 million was generated in support of State educational programs and institutions. And, of course, we helped with the dreams of our winners as well, giving out more than \$1.47 billion in winnings over the course of Fiscal Year 2008.

I do not believe the New Jersey Lottery is willing—or ever has been willing—to rest on its laurels. Each year, it strives to provide more and more support to some of the most vital constituencies of our State, secure in the knowledge that, in doing so, it is changing the lives of people each and every day in innumerable ways.

Sincerely,

Robert James D'Anton  
Chairman

**Dear Friends,**

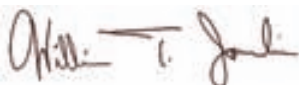
When I'm in a local store making my purchases, I invariably see someone in line purchasing a New Jersey Lottery ticket from one of our retailers. And, more often than not, I also see them holding the ticket up for the clerk to see and proudly stating, "This is the lucky one!"

That player may not know how right they are.

If you look on one of our bet slip holders, you'll see the phrase, "When you play...everybody wins." It's there for a reason: the \$882 million the Lottery generated in Fiscal Year 2008 has enriched the lives of countless New Jerseyans. From students enjoying a lunch through the School Nutrition Program, to tuition assistance and scholarship funding that made higher education a reality for thousands of young men and women, to the care for those in our State's centers for the developmentally disabled and psychiatric hospitals, to our State's three Veterans' Homes—Lottery revenue has helped to enhance the quality of life for countless individuals and families.

It is with those countless persons in mind that I thank the leadership of the New Jersey Lottery Commission and our staff of tireless professionals. What their hard work helps achieve echoes far beyond the environs of our headquarters, and is felt in the lives of their friends and neighbors across the Garden State.

Sincerely,



William T. Jourdain  
Acting Executive Director



message from  
the Executive Director



“Today, the Lottery is a \$2.5 billion engine helping drive our economy, our educational systems, and our State institutions.”

### For nearly 40 years...

The New Jersey Lottery is rapidly closing in on four decades of service to the people of New Jersey. Over the course of nearly forty years, a lot can change; for the Lottery, a lot *has* changed. As our State has grown, developed and evolved, so have we.

Today, the Lottery is a \$2.5 billion engine helping drive our economy, our educational systems, and our State institutions. What began with a return of \$33.4 million to education and institutions in its first year of operation has become a vital generator of over \$882 million in Fiscal Year 2008 alone, and more than \$17 billion over the course of our history.

Those millions and billions have made the dream of higher education a reality for more than a generation of college-bound students; fed millions of school-age children a healthy and nutritious lunch; and ensured the safety, health and well-being of our State's many veterans who have called one of our State's three veterans' facilities home for many, many years. Those dollars have meant care for our developmentally disabled individuals; ensured quality care at our State psychiatric hospitals, and helped provide for the expansion, enhancement and enrichment of every college and university in the State. It is a commitment to our fellow New Jerseyans that we do not take lightly. The charts on these pages bear witness that our dedication has been making a difference in countless lives for nearly forty years, and will continue to do so for many more to come.



## commission members



Robert J. D'Anton,  
*Chairman*



Clockwise from top left,

Robert Slater,  
*Vice Chairman*

Dr. Munr Kazmir,  
*Commissioner*

James J. McGuire, Esq.,  
*Commissioner*

Trina L. Glass, Esq.,  
*Commissioner*

R. David Rousseau,  
*State Treasurer, Ex Officio*



## Where the Money Goes

### State of New Jersey Programs Supported by State Lottery Resources for the Fiscal Year Ended June 30, 2008

#### Department of Agriculture

School Nutrition Program	\$ 4,585
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#### Department of Education

Marie Katzenbach School for the Deaf	1,470
Non-Public School Aid	46,440
Statewide Assessment Program (Grades 4, 8, 11)	8,690
School Construction and Renovations	25,279
<b>Total Department of Education</b>	<b>81,879</b>

#### Higher Educational Services

Senior Public Institutions - Operating Aid	378,700
Tuition Aid Grants	96,065
Higher Education Capital Improvement Plan - Debt Service	11,506
Outstanding Scholar Recruitment Program	2,902
Aid to County Colleges for Operational Costs	60,249
Aid to Independent Colleges and Universities	8,583
Coordinated Garden State Scholarship Program	2,946
Higher Education Facilities Trust Fund - Debt Service	8,809
Higher Education for Special Needs Students	648
Student Tuition Assistance Reward Scholarships (NJSTARS)	5,108
Opportunity Program Grants	11,303
Supplementary Education Program Grants	5,412
Veterinary Medicine Education	279
<b>Total Higher Educational Services</b>	<b>592,510</b>

#### Department of Human Services

Operation of Centers for Developmentally Disabled	41,489
Operation of State Psychiatric Hospitals	132,196
<b>Total Department of Human Services</b>	<b>173,685</b>

#### Department of Military and Veterans' Affairs

Operation of Homes for Disabled Soldiers	29,399
<b>Total Revenue Realized - GAAP Basis</b>	<b>\$ 882,058</b>

(a) The amount of State Lottery funding in the programs designated above may only represent a portion of its total State funding. Any balance of the appropriation for the program would be funded by the General Fund.

The Lottery is so much more than multi-million-dollar jackpots and making millionaires. It's about helping to feed a nutritious meal to a young student or providing scholarships to a high school student. It's about improving the quality of life for disabled veterans and developmentally disabled individuals, and making certain that those who wish to attend a New Jersey college or university can do so.

As one of the most cost-efficient lotteries in the United States, the New Jersey Lottery spends approximately 1% of its revenues to operate its business. As the State's fourth largest revenue producer, the Lottery grossed over \$2.5 billion in sales for Fiscal Year 2008, and was able to contribute more than \$882 million to the State to help fund education and institutions, making everyone in the Garden State a winner.

Since its inception nearly forty years ago, the Lottery has dedicated more than \$17.2 billion to programs that benefit millions of New Jersey residents. Community Colleges, the Department of Human Services, the Department of Military and Veterans Affairs, our School Nutrition Program, and the Marie Katzenbach School for the Deaf are just a few of the organizations and programs whose constituencies benefit from Lottery proceeds.

The New Jersey Lottery also plays a key role in supporting small businesses throughout the State. Over 6,100 businesses serve as Lottery retailers and act as a direct link between the Lottery and its players. Retailers earn five percent of their lottery ticket sales in the form of commissions. Last fiscal year, the Lottery returned over \$141.3 million in commissions to support chain stores, supermarkets, pharmacies, convenience stores and other establishments throughout the State.

# HARLEY-DAVIDSON INSTANT GAME



Enter the Lottery Bonus Zone for a 2nd Chance to win a Harley-Davidson® Merchandise Prize Pack!

## The VIP Club

The Lottery's *VIP Club* has over 130,000 members - the most of any Lottery in the country. The *VIP Club* is free-of-charge, and its members enjoy such privileges as having the daily results e-mailed directly to them; the ability to participate in special drawings for tickets to concerts, sporting events and family entertainment; and a newsletter that details games and promotions that are on the horizon. Members sign up by logging onto the Lottery's website: [njlottery.net](http://njlottery.net) and registering their name.

The Lottery's *VIP Club* is also home to the "Lottery Bonus Zone Second Chance Drawing" games, where even non-winning tickets can win you a diverse array of prizes. Among the "Bonus Zone" games in FY '08 were *Harley Davidson*®, *Wheel of Fortune*®, *Marilyn Monroe*™, and *Betty Boop*™. These "Bonus Zone" drawings have proven to be exceptionally popular with the membership of the *VIP Club*.

## Responsible Play

As part of its continuing efforts to increase public awareness and

understanding of playing responsibly, the Lottery has redesigned a brochure for distribution to the public that provides guidelines to use when playing the lottery and other gaming activities.

The brochure, entitled "*It's Only a Game*," is distributed through the Lottery's 6,100 retailers throughout the State and at Lottery sponsored events. The free brochure encourages the public to call the 1-800-GAMBLER® hotline if they think they or someone they know may have a gambling problem. The staff at the hotline can direct them to assistance. Additionally, the Lottery also reinforced its commitment to combating underage gambling by partnering with the Council on Compulsive Gambling of New Jersey, Inc. to increase public awareness of the Lottery's "*Not 18 Yet? No Bet*" campaign, which conveys to Lottery retailers and the public the importance of not selling lottery tickets to minors.

The 1-800-GAMBLER® number is featured in the Lottery's product line and as a tagline in its print, radio and television advertising.





## Games

### Pick 3 and Pick 4

Pick 3 (originally dubbed Pick-It) was first introduced on May 22, 1975, and astonished Lottery officials with its instant success among players. The game was originally slated for a six-month trial period, but in just five months, officials were astounded when the fledgling game recorded sales of nearly \$18 million. Nearly forty years later, the game has generated nearly \$13 billion in sales, with \$457 million generated in this past fiscal year alone.

Two years later, with the foundation laid by the success of the Pick 3 game, Lottery officials introduced the Pick 4. The weekly Pick 4 game was designed to produce larger prizes with higher odds of winning in comparison to the daily Pick 3.

Although payouts have evolved over the years, the characteristics of the Pick 4 game remain the same. The game is still only \$.50 per bet, and the straight and combination features still remain. The Pick 4 has remained a steady favorite among players, amassing more than \$6.3 billion since its introduction. In Fiscal Year 2008, this cornerstone game earned over \$265 million in sales.

### Jersey Cash 5

With more people winning higher jackpots throughout the year, Jersey Cash 5 is one of the most popular games the Lottery offers. Drawn daily like our Pick 3 and Pick 4 games, Jersey

Cash 5 costs \$1.00 per game and has resulted in 196 jackpot winners over the course of Fiscal Year 2008. The average top-prize in 2008 was approximately \$181,000 and 1,236,290 players won over \$66 million. Sales for the game were just under \$132.5 million in Fiscal Year 2008, as well. These strong sales helped this remarkable game generate over \$57 million in support of State educational programs and institutions.

### Pick 6

Since its inception, the Pick 6 Lotto has generated approximately \$7.6 billion in sales, paid out over \$4.4 billion to winners and returned nearly \$3.5 billion to State education and institutions.

Pick 6 Lotto, which made its first millionaire in 1981, turned out 10 millionaires in Fiscal Year 2008. With Fiscal Year 2008 sales totaling \$86.2 million, and returns to the State equaling nearly \$38.2 million, the Pick 6 Lotto once again established itself as one of the Lottery's flagship games. As one of the first six-digit games in the industry, New Jersey's Pick 6 Lotto has continually produced a high level of return and evolved to maintain player interest. In the months and years ahead, while the essence of this singular game remains intact, expect to see new and exciting enhancements added on for the benefit of our playing public.





## Instant Games

New Jersey's instant game product line continues to be one of the most popular—and productive—in the nation. For the fourth year in a row, sales from instant games topped the \$1 billion mark.

In Fiscal Year 2008, dozens of new instant games, ranging in prices from \$1 to \$20, were introduced. Among the most popular were *Deal Or No Deal*™, and 'core' games such as *Crossword and Win For Life*. Instant tickets were responsible for contributing over \$345 million to State education and institutions. Additionally, a record \$832.2 million was paid out in cash and prizes to our many instant ticket winners.

Second chance drawings on games like *Betty Boop*™, *The Duke*™ and *Breeder's Cup Gold*® offered players the opportunity to win some unique prizes and trips in our Lottery Bonus Zone "Second Chance" Drawings, and the success of these Drawings continues to be seen, even in the present day.

## Mega Millions

Sales from Mega Millions were quite strong, reaching \$299,215,366 in New Jersey during Fiscal Year 2008. The average top prize for the fiscal year was slightly over \$68.1 million. During the year, fortunate players of this exciting

multi-state game won more than \$149 million, with New Jerseyans winning no less than three Mega Millions top-tier jackpots. All in all, nearly 7.6 million Garden State residents were Mega Millions winners throughout Fiscal Year 2008.

## Raffle Games

Fiscal Year 2008 saw the return of a unique Lottery game. The Lottery's "Million Dollar New Year" and "Independence Day" raffle games saw players scooping up \$20 tickets for chances to win one of four \$1,000,000 prizes.

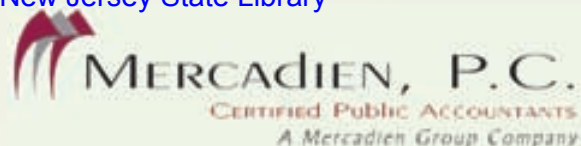
In addition to making eight new millionaires, each of these raffle games had prize tiers of \$100,000, \$25,000 and \$500. There were a total of 519 winning numbers drawn, giving players not only their best odds ever to win a million dollars, but a 1 in 963 chance of winning \$500 or more. This outstanding category of Lottery games generated—by itself—over \$3.7 million in support of education and institutions.





# AUDITORS' REPORT





## 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.

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.

MERCADIEN, P.C., CPAs

November 19, 2008

## MANAGEMENT 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 BankNote, 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).

### 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.

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
<b>Total Assets</b>	<b>838</b>	<b>923</b>
Current Liabilities	290	318
Non-Current Liabilities	526	594
<b>Total Liabilities</b>	<b>816</b>	<b>912</b>
Restricted Net Assets	20	8
Unrestricted Net Assets	3	3
<b>Total Net Assets</b>	<b>\$ 23</b>	<b>\$ 11</b>

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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### *Fiscal Years 2008 and 2007*

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.

Non-current liabilities represent annuity prize awards due in fiscal years beyond 2008 and the total due for unused vacation and sick leave.

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 (Expired Prize Awards)	\$ 20	\$ 8
Unrestricted	3	3
<b>Total Net Assets</b>	<b>\$ 23</b>	<b>\$ 11</b>

Expired prizes 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
<b>Operating revenues</b>		
Ticket sales	\$ 2,538	\$ 2,351
Forfeited prizes	40	40
Miscellaneous income	1	1
<b>Total operating revenue</b>	<b>2,579</b>	<b>2,392</b>
<b>Operating expenses</b>		
Prize expenses	1,471	1,359
Bad debt expense	1	1
Administrative expenses	23	28
Retailer commissions	141	131
Vendor fees	44	45
Network fees	9	7
Drawing broadcast fees	1	1
<b>Total operating expenses</b>	<b>1,690</b>	<b>1,572</b>
Operating income	889	820
Investment income	5	6
Income before transfers	894	826
<b>Operating transfers - State contributions</b>	<b>882</b>	<b>828</b>
<b>Decrease in net assets</b>	<b>\$ 12</b>	<b>\$ (2)</b>

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.

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:

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

### 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.

## STATEMENTS OF NET ASSETS

June 30, 2008 and 2007

Fiscal Year

	2008	2007
<b>Assets</b>		
<b>Current Assets</b>		
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
<b>Investments</b>		
Deposit Fund Contracts	138,396,004	146,139,504
State of New Jersey Cash Management Fund	147,967,811	154,969,265
<b>Total current assets</b>	<b>312,942,976</b>	<b>329,722,110</b>
<b>Non-Current Assets</b>		
Investments - deposit fund contracts	525,342,844	593,234,557
<b>Total non-current assets</b>	<b>525,342,844</b>	<b>593,234,557</b>
<b>Total assets</b>	<b>\$ 838,285,820</b>	<b>\$ 922,956,667</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 18,491,838	\$ 23,993,238
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	84,058,235	86,126,155
<b>Total current liabilities</b>	<b>289,552,743</b>	<b>318,175,513</b>
<b>Non-Current Liabilities</b>		
Compensated absences	1,028,933	1,120,208
Installment prize awards	525,342,844	593,234,557
<b>Total non-current liabilities</b>	<b>526,371,777</b>	<b>594,354,765</b>
<b>Total liabilities</b>	<b>815,924,520</b>	<b>912,530,278</b>
<b>Net Assets</b>		
Restricted for prize awards or contributions for aid to education and State institutions	19,538,975	7,599,765
Unrestricted	2,822,325	2,826,624
<b>Total net assets</b>	<b>\$ 22,361,300</b>	<b>\$ 10,426,389</b>

See accompanying notes to financial statements

## COMPARATIVE STATEMENTS

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

Fiscal Year

	2008	2007
<b>Operating Revenues</b>		
<b>Ticket Sales</b>		
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)
<b>Total ticket sales</b>	<b>2,538,476,656</b>	<b>2,350,891,832</b>
<b>Other revenues</b>		
Forfeited prizes	39,676,417	40,416,837
Miscellaneous	1,154,012	1,026,409
<b>Total operating revenues</b>	<b>2,579,307,085</b>	<b>2,392,335,078</b>
<b>Operating expenses</b>		
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
<b>Total operating expenses</b>	<b>1,690,550,485</b>	<b>1,572,462,021</b>
<b>Operating Income</b>	<b>888,756,600</b>	<b>819,873,057</b>
<b>Non-operating revenue</b>		
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	11,934,991	(2,275,882)
<b>Net assets, beginning of year</b>	<b>10,426,389</b>	<b>12,702,271</b>
<b>Net assets, end of year</b>	<b>\$ 22,361,300</b>	<b>\$ 10,426,389</b>

See accompanying notes to financial statements

## STATEMENTS OF CASH FLOWS

*For Fiscal Years Ended June 30, 2008 and 2007*

	2008	2007
<b>Cash Flows from Operating Activities</b>		
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)
<b>Cash flows from annuity operations</b>		
Annuity receipts	138,434,504	145,634,710
Purchases of annuities	(8,046,448)	(16,389,585)
Payments of annuity prizes	(103,078,551)	(104,714,436)
<b>Net cash provided by operations</b>	<b>871,690,001</b>	<b>818,759,476</b>
<b>Cash flows used in Non-Capital Financing Activities</b>		
<b>Contributions for aid to education and State institutions</b>	<b>(884,126,155)</b>	<b>(818,355,935)</b>
<b>Cash flows from investing activities</b>		
Cash Management Fund proceeds	1,166,430,000	1,121,854,000
Cash Management Fund purchases	(1,154,192,000)	(1,125,192,600)
<b>Net cash provided by (used in) investment activities</b>	<b>12,238,000</b>	<b>(3,338,600)</b>
Net decrease increase in cash	(198,154)	(2,935,059)
Cash, beginning of year	293,442	3,228,501
<b>Cash, end of year</b>	<b>\$ 95,288</b>	<b>\$ 293,442</b>
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
<b>Operating Income</b>	<b>\$ 888,756,600</b>	<b>\$ 819,873,057</b>
<b>Changes in assets and liabilities</b>		
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	(91,275)	121,668
<b>Net cash provided by operating activities</b>	<b>\$ 871,690,001</b>	<b>\$ 818,759,476</b>

See accompanying notes to financial statements

## NEW JERSEY STATE LOTTERY COMMISSION

### *Notes to Financial Statements June 30, 2008 and 2007*

#### 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.

##### **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.

#### **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.

## NEW JERSEY STATE LOTTERY COMMISSION

### Notes to Financial Statements June 30, 2008 and 2007

#### 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.

#### 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 expenses as incurred.

#### 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
<b>Total Assets</b>	<b>\$148,063,099</b>	<b>\$155,262,707</b>

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.

#### 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.

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
- New York Life Insurance Co.
- Mutual of America
- Metropolitan Life
- Sun Life Assurance
- 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.

#### 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.

#### 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:

Year Ending June 30	Amount
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
	<b>\$4,770,584</b>

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



**New Jersey Lottery**



**Jon S. Corzine,**  
Governor

**R. David Rousseau,**  
State Treasurer

**Robert J. D'Anton,**  
Chairman

**William T. Jourdain,**  
Acting Executive Director

New Jersey Lottery  
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