



2010 Annual Report



Our Governor, Lt. Governor and Treasurer:



Chris Christie
Governor



Kim Guadagno
Lt. Governor



Andrew P. Sidamon-Eristoff
State Treasurer

New Jersey voters created the Lottery in 1969 when they overwhelmingly approved its creation by an 81.5% majority, one of the largest margins for a ballot measure in New Jersey history. The first Lottery ticket was sold on Dec. 16, 1970, to Governor William T. Cahill during the same week when weekly game tickets went on sale at 2,000 agent locations throughout the state.

Though many things have changed in the 39 years since that first lottery ticket was sold, the mission of the Lottery remains unchanged: to generate revenue for financial support of educational programs and state-sponsored institutions. Certainly, the Lottery has accomplished the goals of those 1969 voters. The Lottery is operated as a business enterprise within the framework of laws and regulations of our state. It performs its mission with the utmost integrity. As this report demonstrates, in fiscal year 2010 the Lottery generated over \$2.6 billion in revenues resulting in a contribution to the state of \$924 million that made it possible to fund vital educational programs and institutions. Without this substantial contribution, funding for these programs and institutions might have to be reduced or the funds would have to be made up in some other way.

Over these last 39 years, New Jersey Lottery players have won more than \$26.3 billion in cash and prizes. The state has spent over \$19 billion in Lottery-generated revenue to pay for

educational needs and programs that benefit every resident of New Jersey. And Lottery retailers have earned almost \$2.7 billion in commissions that have helped them boost the state's economy and create jobs.

The New Jersey Lottery operates on approximately one percent of its revenues and is recognized as one of the most cost-efficient lotteries in the country. This clearly demonstrates the commitment and dedication of its Commissioners, leadership and staff and the effective working partnership that has continued among the Lottery, its retailers and vendors.

This past year's success continues a long tradition of excellence, providing entertainment for lottery players and improving the quality of life for many of our fellow citizens.

NEW JERSEY LOTTERY COMMISSION

In fiscal year 2010, the New Jersey Lottery once again demonstrated its vital role in providing funding for the operation of our state-run institutions and educational programs. As New Jersey's fourth largest revenue producer, the Lottery is truly a benefit to lottery players and non-players alike.

The dedicated and efficient work of New Jersey Lottery management and staff, the commitment of its retailer community, and the work of its vendors has resulted in another successful year.

Equally important in this success are the players. Their participation and loyalty is the foundation that enables us to continue to

achieve the mission laid down by the voters over forty years ago. While enjoying the fun of playing lottery games, the revenue generated from their activity has enhanced life in our state for so many other New Jerseyans.

We, as New Jersey Lottery Commissioners, are proud of our affiliation with such a prestigious division of State Government.



Andrew P. Sidamon-Eristoff
State Treasurer
Ex Officio



Frank V. Ragazzo
Chairman



Dr. Munir Kazmir
Vice Chairman



Al Alvarez, Esq.
Commissioner



Robert J. D'Anton
Commissioner



Robert Slater
Commissioner



Thomas Tucci Jr.
Commissioner

Our Executive Director:



Carole Hedinger
Executive Director

“It is truly an honor to lead the New Jersey Lottery into a future that will bring benefits to the state that I am confident will far surpass even those of its illustrious and colorful past.”

It is with great pleasure that I present to you the fiscal year 2010 Annual Report of the New Jersey Lottery.

From modest beginnings in the early months of 1970, the Lottery has grown into an institution that is part of the very fabric of New Jersey life. In addition to providing financial support to our state through good years and bad, the dollars Lottery players spend flow directly back into our communities, supporting more than 6,100 small and large businesses that operate as New Jersey Lottery retailers.

Just as important, the Lottery has made life in the Garden State a little more exciting and fun. Last year alone, players won more than 110 million times, taking home over \$1.5 billion in cash and prizes.

It created millions of lucky winners, including many multi-millionaires. During the Lottery's 39 years of operation, winners have provided moments of both great excitement and suspense. There was Melvin Milligan, who claimed his BIG GAME ticket worth \$46 million, just two days before it expired in June 2001. Sandra McNeil won an unbelievable \$211.7 million Powerball jackpot on March 13, 2010. And Harold and Helen Lerner won the largest annuity jackpot in New Jersey history on Sept. 15, 2005, when they won a Mega Millions drawing worth \$258 million.

But the best thing about the Lottery is that it makes every New Jersey resident a winner, even some who never play the lottery.

Lottery proceeds have gone to worthy beneficiaries that include: veterans homes, colleges and universities, school nutrition programs, homes for the developmentally disabled, psychiatric hospitals, higher education scholarships and grants, the Statewide Assessment Program (Grades 4, 8, 11), non-public school aid, school construction and renovation and the Marie Katzenbach School for the Deaf.

The Lottery partners with the State Police in the Amber Alert Program and the Silver Alert Program so that alerts can be disseminated through the large network of Lottery retailers across New Jersey.

Conversion of the Lottery's gaming system to more state-of-the-art equipment began in fiscal year 2010. This important transition is being accomplished with the help of our vendor and Lottery employees.



New Jersey Lottery



On January 31, 2010, Powerball arrived in New Jersey and with it came more excitement for lottery players who could look forward to even more chances to win “big bucks” and for retailers who now had opportunities for extra business.

In fiscal year 2010, almost 1.8 million residents of the Garden State were happy to claim cash prizes, especially one ecstatic winner who claimed an annuity jackpot of \$211.7 million. But the biggest winner since Powerball tickets went on sale here is the State of New Jersey. In the short five months of fiscal year 2010 when Powerball tickets were available for purchase here, this game generated over \$71 million in sales - of which over \$31 million was added to other Lottery-generated revenue that was returned to the Department of Treasury for support of educational programs and state-sponsored institutions.

New Jersey had already offered the Mega Millions lottery game, and now Powerball could give players even more excitement and chances to win big jackpots. With a second multi-state jackpot game that included more states joining in the ticket sales,

jackpots could increase more quickly - and players could have bigger dreams more often.

Powerball jackpots start at a minimum of \$20 million, and give players nine ways to win, with overall odds of 1 in 35 at a cost of \$1.00 per bet. For an additional \$1.00, players can choose the PowerPlay® option, which can multiply winnings, other than the jackpot prizes, by 2 to 5 times with prizes up to \$1,000,000. The Power Play multiplier number is randomly drawn just before the Powerball drawing.



Capitalizing on the successful launch of Powerball and to add more excitement to the game, in May 2010, the Lottery included a special “Power Play 10X” in which non-jackpot prizes had the chance to be multiplied by 10 times. During that promotion, one of the 5X multipliers was replaced with a 10X multiplier. When the 10X was selected, the non-jackpot base prizes won for that drawing was multiplied ten times for Powerball players who also purchased the Power Play.

Powerball drawings are on Wednesdays and Saturdays and Mega Millions is drawn on Tuesdays and Fridays of each week.

New Jersey Lottery
POWERBALL
 POWERPLAY® **10X**

10X

WIN 10 TIMES AS BIG!





Where the Money Goes

State of New Jersey Programs Supported by State Lottery Resources for the Fiscal Year Ended June 30, 2010 (a)

Department of Agriculture

School Nutrition Program \$ 5,264

Department of Education

Marie Katzenbach School for the Deaf 1,582

Non-Public School Aid 45,272

Statewide Assessment Program (Grades 4, 8, 11) 8,743

School Construction and Renovations 27,929

Total, Department of Education 83,526

Higher Educational Services

Senior Public Institutions - Operating Aid 353,129

Tuition Aid Grants 124,090

Higher Education Capital Improvement Plan - Debt Service 12,306

Aid to County Colleges for Operational Costs 56,596

Aid to Independent Colleges and Universities 7,375

Coordinated Garden State Scholarship Program 3,118

Higher Education Facilities Trust Fund - Debt Service 9,444

Higher Education for Special Needs Students 415

Student Tuition Assistance Reward Scholarships (NJSTARS) 7,686

Opportunity Program Grants 12,103

Supplementary Education Program Grants 6,010

Total, Higher Educational Services 592,272

Department of Human Services

Operation of Centers for the Developmentally Disabled 74,749

Operation of State Psychiatric Hospitals 136,475

Total, Department of Human Services 211,224

Department of Military and Veterans' Affairs

Operation of Homes for Disabled Soldiers 31,723

Total, Revenue Realized - GAAP Basis \$ 924,009

Recognized as one of the most cost-efficient lotteries in the United States, the New Jersey Lottery spends approximately one percent of its revenue to operate its business. As the state's fourth largest revenue producer, the Lottery grossed over **\$2.6 billion** in fiscal year 2010.

Since the first lottery ticket was sold more than 39 years ago, the Lottery has been helping meet New Jersey's needs and improve the lives of countless Garden State residents – players and non-players alike. In that time, the Lottery has dedicated over **\$19 billion** to support educational programs and State-sponsored institutions. In fiscal year 2010 alone, the New Jersey Lottery returned over **\$924 million** to benefit organizations and programs in our state. Psychiatric hospitals and homes for the developmentally disabled, veterans homes, community colleges, independent colleges and universities, school construction and renovation projects, the Marie Katzenbach School for the Deaf, non-public schools, higher education scholarship and grant programs, 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. In fiscal year 2010, the Lottery returned approximately **\$145 million** in commissions to support chain stores, supermarkets, pharmacies, convenience stores and other establishments throughout the state.

Every day, the Lottery helps to make winners by: providing entertainment and winning jackpots for lottery players; supporting the business community that serves as Lottery retailers; and, all the while, generating financial support for vital programs and organizations in our state.



CONTRIBUTED

\$924

MILLION

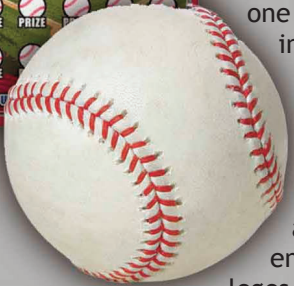
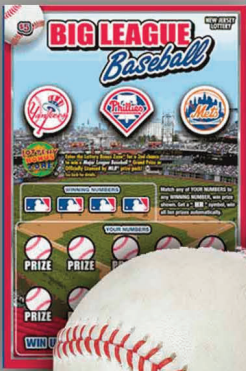
TO EDUCATION, VETERANS
AND SCHOOL NUTRITION

(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.





**LOTTERY
BONUS
ZONE**



The VIP Club

During fiscal year 2010, the New Jersey Lottery's VIP Club — one of the largest in the country — reached a membership record of 174,836.

The VIP Club is free-of-charge, and its members enjoy such privileges as having daily results e-mailed 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: www.njlottery.net.

The Lottery's VIP Club is also home to the "Lottery Bonus Zone Second Chance Drawing" games, where even non-winning tickets

can win a diverse array of prizes. Among the "Bonus Zone" games in 2010 were: *Big League Baseball*, *Jets Football Fantasy*, *Giants Football Fantasy*, and *Elvis*. These "Bonus Zone" drawings have proven to be exceptionally popular with the members of the VIP Club.

Responsible Play

As part of its continuing efforts to increase public awareness and understanding of playing responsibly, the Lottery designed 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," was distributed to the Lottery's 6,100 retailers throughout the state. It 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, reinforcing its commitment to combating underage gambling, the Lottery partners with the Council on Compulsive Gambling of New Jersey in an ongoing "Not 18 Yet? No Bet" campaign to increase public awareness of the age restriction on lottery play in New Jersey, conveying to retailers and citizens alike the importance of not selling or giving lottery tickets to minors.

The 1-800-GAMBLER® number is featured on all of the Lottery's product line and as a tagline in its advertising.

LOTTERY 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 over **\$13.7 billion in sales**, with over \$435 million generated in fiscal year 2010.

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 **\$6.8 billion** since its introduction. In fiscal year 2010, this cornerstone game earned over **\$264 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 **190 jackpot winners over the course of fiscal year 2010**.

The average top-prize in 2010 was approximately **\$200,248** and **1,329,342 players won over \$71 million**. Sales for the game were just under **\$144 million in fiscal year 2010** as well. These strong sales helped this remarkable game generate **over \$64.7 million in support of state educational programs and institutions**.



Pick 6

Since its inception, the Pick 6 Lotto has generated over **\$7.7 billion in sales**.

Pick 6 Lotto, which made its first millionaire in **1981** when **Manuel Collada of Hillside won \$1.8 million**, turned out **8 millionaires in fiscal year 2010**. The average jackpot was almost **\$5 million**. With fiscal year 2010 sales totaling over **\$81.9 million**, and returns to the state equaling more than **\$34.8 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.

GIVE YOUR DREAMS A CHANCE[®]



Instant Games

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

In fiscal year 2010, dozens of new instant games, ranging in prices from \$1 to \$20, were introduced. Among the most popular were *Championship Poker™* and *Bundle of Green™*, and 'core' games such as *Crossword* and *Big Money Spectacular*. Instant tickets were responsible for contributing \$353.7 million to state education and institutions. Additionally, a record of more than \$856.9 million was paid out in cash and prizes to our many instant ticket winners.

Second chance drawings on games like *Giants Football Fantasy™*, *Cruise For Cash™*, *Elvis™*, and *Jets Football Fantasy™* offered players the opportunity to win some unique prizes and trips in our Lottery Bonus Zone "Second Chance" Drawings



Mega Millions

Sales from Mega Millions were quite strong, reaching \$307,096,483 in New Jersey during fiscal year 2010. The average jackpot for the fiscal year was \$73.5 million. During the year, fortunate players of this exciting multi-state game won more than \$153.9 million, with one New Jersey winner claiming half of the November 10, 2009 top-tier annuity prize of \$77 million. All in all, 7,688,873 Garden State residents were Mega Millions winners in fiscal year 2010.

New Jersey Lottery



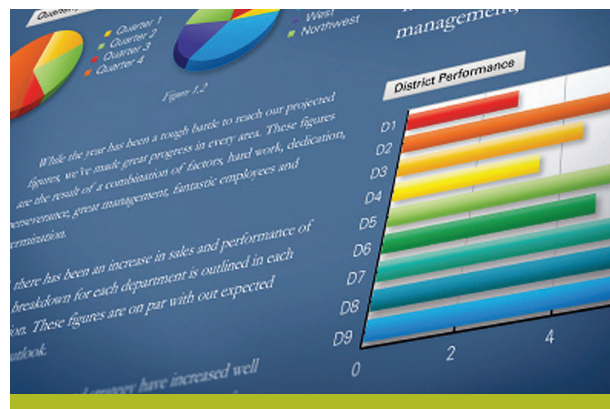
Powerball

There are two predominant multi-state games in the American lottery industry: Mega Millions and Powerball. On January 31, 2010, New Jerseyans had their first opportunity to play the Powerball game without having to travel out-of-state. The game's average jackpot for the fiscal year was slightly over \$98.9 million.

In the five months that Powerball has been available for purchase in New Jersey, sales have been a great success – reaching \$71 million in that short time. With the addition of this exciting game, New Jerseyans now have more chances to win million dollar jackpots. Without a doubt, Powerball has been a great addition to the array of lottery games available in the Garden State.



Independent 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 New Jersey Division of State Lottery (the "Division of State Lottery") as of and for the years ended June 30, 2010 and 2009. These financial statements are the responsibility of the Division of State Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Division of State Lottery's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the New Jersey Division of State Lottery at June 30, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2010 on our consideration of Division of State Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

October 10, 2010

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

The following discussion and analysis provides an analytical overview of the financial position and activities of the New Jersey Division of State Lottery (the "Division of State Lottery") for the years June 30, 2010 and 2009. This statement was prepared by management and should be read in conjunction with the financial statements and notes hereto, which follow this section.

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

The Division of State Lottery licenses over 6,100 retailers throughout the State of New Jersey to act as retailers in the sale of New Jersey Lottery tickets. Lottery retailers receive compensation in the form of commissions on each ticket sold or validated. The Division of State Lottery also contracts with various ticket vendors in the production, distribution and management of lottery products.

- Gtech Corporation is contracted to provide ticket sales through the online terminal network and the warehousing and distribution of instant tickets and promotional materials. Gtech is responsible to provide communications between the Division of State Lottery's sales terminals and Gtech data centers.
- Pollard Bank Note, Scientific Games and Gtech Printing are contracted to print and support instant game products.
- Verizon Communications was contracted to provide digital communication between the Division of State Lottery's approximately 6,100 sales terminals and the Gtech data centers for part of fiscal year 2010. Gtech gradually took over this responsibility starting in the fall of 2009.

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

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

FINANCIAL HIGHLIGHTS

The Division of State Lottery's financial position at June 30, 2010 and 2009, consisted of total assets of \$722 million and \$803 million, respectively, and total liabilities of \$712 million and \$794 million, respectively. A substantial portion of the asset and liability numbers is due to the Division of State Lottery's annuity investment in prize awards. The total amounts invested and due to Division of State Lottery

winners as future installment payments at June 30, 2010 and 2009, were \$527 million and \$612 million, respectively. Net assets increased from \$9 million in fiscal year 2009 to \$10 million for fiscal year 2010.

FINANCIAL STATEMENTS

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

Statements of Net Assets

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

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

Current assets consist of cash and investment in the State of New Jersey Cash Management Fund (the "NJCMF") accounts receivable, current year annuity investments and prepaid expenses. The investment in the NJCMF totaled \$154 million and \$157 million at June 30, 2010 and 2009, respectively.

The Division of State Lottery funds long-term installment prizes with insurance company annuities and United States Treasury securities. The total value of these investments was \$527 million and \$612 million as of June 30, 2010 and 2009, respectively. The Division of State Lottery has annuity investments with twelve (12) insurance companies. The total market value of the United States Treasury securities was \$41 million and \$40 million at June 30, 2010 and 2009, respectively. The annuity prizes due beyond fiscal year 2011 total \$403 million and represents the non-current assets reported on the Division of State Lottery's statements of net assets.

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal Years 2010 and 2009

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

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

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

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

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

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

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

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

The Division of State Lottery's vendors provided critical services to the Division of State Lottery, including the production, warehousing, distribution and accounting for all lottery tickets. The total compensation paid for the Division of State Lottery's vendors and network fees was \$48 million in fiscal year 2010 and \$50 million in fiscal year 2009. Drawing broadcast fees were approximately \$1 million for both years ended June 30, 2010 and 2009, respectively.

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

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

STATEMENTS OF CASH FLOWS:

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

	Year Ended June 30,	
	2010	2009
Cash flows from operating activities	\$ 932	\$ 874
Cash flows used in non-capital financing activities	(935)	(867)
Cash flows used in investing activities	4	(6)
Net Increase (decrease) in cash	\$ 1	\$ 1

SUMMARY AND OUTLOOK

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

The management of Division of State Lottery will continue to monitor its product mix to maintain player interest. To this end, the following programs and products have proven to be successful in maintaining this interest:

- Pick 4 "Red Ball" double up
- Various instant games
- VIP club
- The addition of "Powerball"

Management will also monitor prize payout percentages and drawing odds in order to achieve an effective mix, which will be beneficial both to players and to the state contributions.

STATEMENTS OF NET ASSETS

June 30, 2010 and 2009

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

See accompanying notes to financial statements

COMPARATIVE STATEMENTS
*Statements of Revenues, Expenses
and Changes in Net Assets*

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

See accompanying notes to financial statements

STATEMENTS OF CASH FLOWS

*For Fiscal Years Ended
June 30, 2010 and 2009*

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

See accompanying notes to financial statements

NEW JERSEY STATE LOTTERY COMMISSION

Notes to Financial Statements June 30, 2010 and 2009

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The New Jersey Division of State Lottery (the "Division of State Lottery") and the State Lottery Commission (the "Commission") were concurrently established in 1970, pursuant to the "State Lottery Law" (N.J.S.A. 5:9-1 et seq.). The Division of State Lottery operates within the Department of the Treasury of the State of New Jersey. The Commission consists of the State Treasurer and six public members and is authorized and empowered to promulgate rules and regulations regarding the conduct of lottery games, including the price or prices of tickets, the number and size of prizes on winning tickets, the licensing of retailers, and the apportionment of ticket revenues. The Division of State Lottery's financial statements are presented as those of an enterprise fund and include the operations for which the Division of State Lottery is financially accountable and exercises oversight responsibility.

Basis of Accounting

The Division of State Lottery prepares its financial statements using the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred.

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

Use of Estimates

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

State of New Jersey Cash Management Fund

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

Accounts Receivable

Accounts receivable is comprised primarily of amounts due from retailers. The allowance for uncollectible accounts is funded by a \$100 per year license renewal fee paid by the Division's retailers. Operating expense is charged with an allowance for estimated uncollectible accounts based on past experience and an analysis of current accounts receivable collectibility. Accounts deemed uncollectible are charged to the allowance in the year they are deemed uncollectible.

Installment Prize Awards and Prize Expenses

Installment prize awards are recorded based upon the present value of an annuity at terms to yield a series of future payments needed to meet the obligations of the Division of State Lottery for prize disbursements. The Division of State Lottery purchases annuity contracts from insurance companies and U.S. government securities to fund its liability for installment prize awards. An annuity contract represents an obligation by an insurance company to provide a fixed series of payments over a specified period. Annuity contracts are subject to credit risk. The Division of State Lottery seeks to control its exposure to such credit risk by purchasing annuity contracts only from insurance companies that meet certain minimum standards. Such standards include having minimum acceptable ratings from at least two of three private rating companies. The rating companies and the minimal acceptable ratings are the following; Standard and Poor's financial strength rating of "AA", A.M. Best financial strength rating of A, and Moody's financial strength rating of "Aa2, However, due to the long-term nature of these contracts, the credit quality of the issuer is subject to change. Amounts recorded as prize expense reflect the cost of annuity contracts and U.S. government securities necessary to satisfy stated prize awards plus any single payment awards. These annuities are presented on the statement of net assets as deposit fund contracts, carried at contract value which approximates fair value.

Equipment

The Division follows the state's threshold for capitalizing equipment as follows: machinery and equipment over \$20,000 and motor vehicles over \$30,000. Purchases that do not meet the threshold for capitalization are recognized as expenses in the statements of revenues, expenses, and changes in net assets in the period during which they are acquired and are included in administrative expenses. As of June 30, 2010 and 2009, leasehold improvements were \$357,474 and \$357,474, respectively. For the years ended June 30, 2010 and 2009, amortization expense was \$51,660 and \$46,491, respectively.

Net Assets

Restricted

Amounts restricted for prize awards or contributions for aid to education and state institutions consist of prizes that are not claimed within one year from the date of the drawing for machine games and within one year from the date of games 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," "Powerball" and various raffle games on the drawing date.
- Instant games are recognized daily, based upon the settlement of instant game inventory packs by selling retailers. Sales adjustments are recorded based upon final reconciliations prepared after the termination of a lottery instant game.
- Sales discounts are recorded for the sales value of tickets provided to retailers at no cost to be used for promotional purposes.

NEW JERSEY STATE LOTTERY COMMISSION

Notes to Financial Statements June 30, 2010 and 2009

Forfeited Prizes

The State Lottery Law requires that prizes not claimed within one year from the date of the drawing for machine games and within one year from the date of the game's closing for instant games be forfeited. Effective November 21, 1991, the Commission authorized that seventy percent of forfeited prizes are to be maintained in a reserve for prize awards and are available to augment future prize awards or, at the discretion of the executive director, to augment the Division of State Lottery's contribution for state aid for education and state institutions. The remaining 30% goes directly to contributions to aid education and institutions to be consistent with the 30% minimum contribution requirement of the State Lottery Law. Forfeited prizes are recognized as "Other Revenues" during the period forfeited. For the years ended June 30, 2010 and 2009, forfeited prizes were \$42,223,139 and \$33,948,673, respectively.

Contributions and Prize Awards

The State Lottery Law requires no less than 30% of total revenues accruing from ticket sales to be paid to the State Treasury for state aid for education and state institutions. Contributions for the years ended June 30, 2010 and 2009, aggregated \$924,009,031 and \$887,208,916, respectively, of which \$93,009,031 and \$104,208,916 was due to the State Treasury at June 30, 2010 and 2009, respectively.

For machine games, the Division of State Lottery has designated that a minimum of 45% of gross revenues be allocated for prize awards, including retailer bonuses. Prize expense is recorded when the winning ticket number is selected for the respective lottery game based on eligible winning tickets sold. For instant games, the percentage of gross revenues to be allocated for prize awards varies by game.

Commissions and Fees

Retailers receive a commission of 5% based on the total tickets sold and a commission of 1.25% of terminal validations. The online game contractor receives a fee equal to a contractual percentage of the revenue generated through the respective network maintained by the contractor. All other gaming contractors are paid fees based on the units of service provided.

Vacation and Sick Leave

The Division records vacation and sick time incurred during the period in "administrative expenses" in the accompanying statements of revenues, expenses and changes in net assets. Payments for accumulated sick leave balances are made to retiring employees upon regular retirement from the State of New Jersey's General Fund. Such payment is based on 50% of the employee's sick leave accumulation at the pay rate in effect at the time of retirement, up to a maximum of \$15,000. Employees separating from service prior to retirement are not entitled to payments for accumulated sick leave.

Advertising

The Division of State Lottery uses advertising to promote the sale of lottery tickets. The costs of advertising are expensed as incurred. Advertising expense included in administrative expense amounted to \$7,038,893 and \$10,230,662 for the years ended June 30, 2010 and 2009, respectively.

Cash and Investments

The Division of State Lottery adopted GASB Statement No. 40, "Deposits and Investment Risk Disclosures," which requires uncollateralized deposits exposed to custodial credit risk to be disclosed. The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits that are in possession of an outside party. The following is a summary of

the Division's cash deposits by financial institution and the amount exposed to custodial credit risk at June 30, 2010 and 2009. The Division's deposits with Wachovia are insured by the Federal Deposit Insurance Corporation up to \$250,000.

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

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, Mega Millions and Powerball. An annuity contract represents an obligation by an insurance company to provide a fixed series of payments over a specified period.

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

Annuity contracts are carried at their current contract values, which are based upon their original purchase prices adjusted for credited interest and amounts already received. Annuity contracts are subject to credit risk. The Division seeks to control its exposure to such credit risk by purchasing annuity contracts only from insurance companies that meet certain minimum standards. Such standards include having minimum acceptable ratings from at least two of three private rating companies. The rating companies and the minimal acceptable ratings are the following; Standard and Poor's financial strength rating of "AA", A.M. Best financial strength rating of "A", and Moody's financial strength rating of "Aa2". However, due to the long-term nature of these contracts, the credit quality of the issuer is subject to change. As of June 30, 2010, nine companies with annuity contracts totaling approximately \$251,180,381 had ratings below those minimally acceptable for new purchases. At June 30, 2010 and 2009, the Division held insurance company annuity contracts totaling \$485,761,324 and \$571,439,097, respectively, issued through twelve insurance companies, which are due in installments ranging from ten years to the lifetime of the recipient. The estimated fair value of annuity contracts approximates the carrying value reflected in the accompanying statements of net assets at June 30, 2010 and 2009.

NEW JERSEY STATE LOTTERY COMMISSION

Notes to Financial Statements June 30, 2010 and 2009

Concentrations of Credit Risk

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

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

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

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 6,100 online locations where all games are sold. Gtech Corporation is responsible for operating the online games and providing courier services under a contract which expires October 1, 2017.

Operating Leases

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

Future minimum lease payments are as follows:

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

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

Subsequent Events

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

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

Rounding

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



Chris Christie
Governor

Kim Guadagno
Lt. Governor

Andrew P. Sidamon-Eristoff
State Treasurer

Frank V. Ragazzo
Chairman

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