



# Annual Report 2009

09

# INTRODUCTION



**Chris Christie**  
*Governor*



**Kim Guadagno**  
*Lt. Governor*



**Andrew P. Sidamon-Eristoff**  
*State Treasurer*

The New Jersey Lottery is about to mark 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 \$887 million in Fiscal Year 2009 alone, and more than \$18 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 gallant 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; 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; 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.

# NEW JERSEY LOTTERY

## Commission Members



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



**Robert Slater**  
*Vice Chairman*



**Dr. Munr Kazmir**  
*Commissioner*



**Al Alvarez Esq.**  
*Commissioner*




**Frank V. Ragazzo**  
*Commissioner*



**Thomas Tucci Jr.**  
*Commissioner*



**Andrew P. Sidamon-Eristoff**  
*State Treasurer*  
*Ex Officio*

lead·er·ship (lē'dər-shīp') *n.* 1. The position  
or office of a leader. 2. Capacity  
ability to lead. lead·er·ship (lē'  *n.* 1

# A LOOK AHEAD TO FY 2010

New Jersey Lottery



Multiply your  
prize with

**POWERPLAY®**



In the months following the close of FY' 09, the New Jersey Lottery embarked upon an ambitious initiative to upgrade the Lottery equipment and peripherals used throughout its retailer network. As of the writing of this report, that process has been completed, and the Lottery's retailers are making use of state-of-the-art satellite communications technology, enhanced player information displays, and remote ticket checkers. Initial feedback from both players and retailers has been extremely positive.

This new system has seen the launch of a new game as well—Powerball. There are two predominant multi-state games in the

American lottery industry: Mega Millions and Powerball. In the past, a Mega Millions state like New Jersey could not sell Powerball tickets through its retailer network. After months of discussions, an agreement was reached in the waning months of 2009 to allow for 'cross-selling'—the ability for Mega Millions states to sell Powerball tickets, and for Powerball states to sell Mega Millions tickets. New Jerseyans had their first opportunity to play this game—without having to travel out-of-state—on January 31, 2010.



## Where the Money Goes

### State of New Jersey Programs Supported by State Lottery Resources for the Fiscal Year Ended June 30, 2009 (a)

#### Department of Agriculture

School Nutrition Program	\$ 4,916
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#### Department of Education

Marie Katzenbach School for the Deaf	1,565
Non-Public School Aid	48,112
Statewide Assessment Program (Grades 4, 8, 11)	8,685
School Construction and Renovations	24,362
<b>Total, Department of Education</b>	<b>82,724</b>

#### Higher Educational Services

Senior Public Institutions - Operating Aid	365,073
Tuition Aid Grants	110,450
Higher Education Capital Improvement Plan - Debt Service	12,075
Outstanding Scholar Recruitment Program	1,312
Aid to County Colleges for Operational Costs	58,149
Aid to Independent Colleges and Universities	8,035
Coordinated Garden State Scholarship Program	3,011
Higher Education Facilities Trust Fund - Debt Service	9,150
Higher Education for Special Needs Students	513
Student Tuition Assistance Reward Scholarships (NJSTARS)	7,849
Opportunity Program Grants	11,757
Supplementary Education Program Grants	5,888
Veterinary Medicine Education	310
<b>Total, Higher Educational Services</b>	<b>593,572</b>

#### Department of Human Services

Operation of Centers for the Developmentally Disabled	29,723
Operation of State Psychiatric Hospitals	144,870
<b>Total, Department of Human Services</b>	<b>174,593</b>

#### Department of Military and Veterans' Affairs

Operation of Homes for Disabled Soldiers	31,404
<b>Total, Revenue Realized - GAAP Basis</b>	<b>\$ 887,209</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.

Recognized 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 2009, and was able to contribute more than \$887.2 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 \$18 billion to programs that benefit millions of New Jersey residents. Community Colleges, the Department of Human Services, the Department of Military and Veterans Affairs, the 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 nearly \$140 million in commissions to support chain stores, supermarkets, pharmacies, convenience stores and other establishments throughout the State.

## DEAL OR NO DEAL Second Chance Game!



### The VIP Club

The Lottery's VIP Club has over 170,000 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 directly 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](http://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 you a diverse array of prizes. Among the

"Bonus Zone" games in FY'09 were *Deal Or No Deal*<sup>™</sup>, *PAC-MAN Cash*<sup>™</sup>, and *Pink Panther*<sup>™</sup>. 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 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. The free brochure

encourages the public to call the 1-800-GAMBLER<sup>®</sup> 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 CCGNJ 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 of the importance of not selling or giving lottery tickets to minors.

The 1-800-GAMBLER<sup>®</sup> number is featured on all of the Lottery's product line and as a tagline in its 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 over \$18 million. Nearly forty years later, the game has generated almost \$13 billion in sales, with \$448 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 \$6.5 billion since its introduction. In Fiscal Year 2009, 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 184 jackpot winners over the course of Fiscal Year 2009. The average top-prize in 2009 was approximately \$199,215 and 1,278,532 players won almost \$68.9 million. Sales for the game were over \$138.9 million in Fiscal Year 2009 as well. These strong sales helped this remarkable game generate nearly \$64 million in support of State educational programs and institutions.



## Pick 6

Since its inception, the Pick 6 Lotto has generated approximately \$7.7 billion in sales, paid out over \$3.9 billion to winners and returned nearly \$3.2 billion to state education and institutions.

Pick 6 Lotto, which made its first millionaire in 1981, turned out 8 millionaires in Fiscal Year 2009. With Fiscal Year 2009 sales totaling \$90.1 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 fifth year in a row, sales from instant games topped the \$1 billion mark.

In Fiscal Year 2009, 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 \$344 million to State education and institutions. Additionally, \$828.8 million was paid out in cash and prizes to our many instant ticket winners.

“Second Chance” drawings on games like *It's A Wonderful Life—For Life!!*, *The Three Stooges* and *Yogi Berra Cash Catcher* offered players the opportunity to win some unique prizes and trips in our Lottery Bonus Zone, and the success of these drawings continues to be seen in similar offerings making their debut in Fiscal Year 2010.



### Mega Millions

Sales from Mega Millions were quite strong, reaching \$282,504,403 in New Jersey during Fiscal Year 2009. The average top prize for the Fiscal Year was slightly under \$57.7 million. During the year, fortunate players of this exciting multi-state game won more than \$140.7 million. In addition to these winners, New Jerseyans were winners in two different Mega Millions top-tier jackpots—one in July 2008 for \$126 million, and another in March 2009 for \$216 million. All in all, nearly 7.1 million Garden State residents were Mega Millions winners throughout Fiscal Year 2009.



### Raffle Games

Fiscal Year 2009 saw the newest permutation of a unique type of Lottery game. The Lottery's “Jersey Jackpot Raffle” game saw players scooping up \$20 tickets for chances to win one of three \$2,000,000 annuity prizes.

In addition to making three new millionaires, each of these raffle games had prize tiers of \$100,000, \$25,000, \$500 and \$250. There were a total of 1,216 winning numbers drawn, giving players not only their best odds ever to win a million dollars, but a 1 in 411 chance of winning \$250 or more. “Jersey Jackpot Raffle” generated—by itself—nearly \$2.9 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, 2009 and 2008. 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 opinions. 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, 2009 and 2008, 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 10, 2009 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 10, 2009

## 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, 2009 and 2008. 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.
- Pollard Bank Note, Scientific Games and Gtech Printing are contracted to print and support instant game products.
- Verizon Communications is contracted to provide digital communication between the Division of State Lottery's 6,100 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, 2009 and 2008, consisted of total assets of \$803 million and \$838 million, respectively, and total liabilities of 794 million and \$816 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, 2009 and 2008, were \$612 million and \$664 million, respectively. Net assets decreased from \$22 million in fiscal year 2008 to \$9 million for fiscal year 2009 due to the use of net assets to increase the contribution for aid to education and institutions.

### FINANCIAL STATEMENTS

The Division of State Lottery's financial statements include statements of net assets as of June 30, 2009 and 2008, statements of revenues, expenses and changes in net assets for the years ended June 30, 2009 and 2008, and statements of cash flows for the years ended June 30, 2009 and 2008. 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	
	2009	2008
Current Assets	\$ 322	\$ 313
Deposit Fund Contracts	481	525
<b>Total Assets</b>	<b>803</b>	<b>838</b>
Current Liabilities	312	290
Non-Current Liabilities	482	526
<b>Total Liabilities</b>	<b>794</b>	<b>816</b>
Restricted Net Assets	6	19
Unrestricted Net Assets	3	3
<b>Total Net Assets</b>	<b>\$ 9</b>	<b>\$ 22</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 \$157 million and \$148 million at June 30, 2009 and 2008, 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 \$612 million and \$664 million as of June 30, 2009 and 2008, 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 \$40 million and \$39 million at June 30, 2009 and 2008, respectively. The annuity prizes due beyond fiscal year 2010 totaled \$481 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 2009 and 2008*

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 \$61 million and \$49 million as of June 30, 2009 and 2008, respectively. Also, \$131 million was due to annuity winners as of June 30, 2009.

Non-current liabilities represent annuity prize awards due beyond 2010 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,	
	2009	2008
Restricted (Expired Prize Awards)	\$ 6	\$ 19
Unrestricted	3	3
<b>Total Net Assets</b>	<b>\$ 9</b>	<b>\$ 22</b>

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,	
	2009	2008
<b>Operating revenues</b>		
Ticket sales	\$ 2,503	\$ 2,538
Forfeited prizes	34	40
Miscellaneous income	1	1
<b>Total operating revenue</b>	<b>2,538</b>	<b>2,579</b>
<b>Operating expenses</b>		
Prize expenses	1,455	1,471
Bad debt expense	1	1
Administrative expenses	22	23
Retailer commissions	139	141
Vendor fees	42	44
Network fees	8	9
Drawing broadcast fees	1	1
<b>Total operating expenses</b>	<b>1,668</b>	<b>1,690</b>
Operating income	870	889
Investment income	3	5
Income before transfers	873	894
<b>Operating transfers - State contributions</b>	<b>887</b>	<b>882</b>
<b>Decrease in net assets</b>	<b>\$ (14)</b>	<b>\$ 12</b>

The Division of State Lottery awarded over \$ 1.455 billion in prize awards in fiscal year 2009 and approximately \$1.47 billion in fiscal year 2008. Over 106 million winning tickets were validated and paid in both fiscal years 2009 and 2008.

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 \$50 million in fiscal year 2009 and \$53 million in fiscal year 2008. Drawing broadcast fees were approximately \$1million for both 2009 and 2008.

The Division of State Lottery's administrative expenses for the fiscal years 2009 and 2008 totaled \$22 million and \$23 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 \$887 million, 35% of total revenues, in fiscal year 2009 and \$882 million, 34% of total revenues, in fiscal year 2008. Despite a 1.6% decrease in revenues in fiscal year 2009, the Division of State Lottery was able to increase contributions for aid to education and institutions by decreasing net assets from \$23 million in fiscal year 2008 to \$9 million for fiscal year 2009.

### STATEMENTS OF CASH FLOWS:

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

	Year Ended June 30,	
	2009	2008
Cash flows from operating activities	\$ 874	\$ 872
Cash flows used in non-capital financing activities	(867)	(884)
Cash flows used in investing activities	(6)	12
<b>Net (decrease) increase in cash</b>	<b>\$ 1</b>	<b>\$ -</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:

- 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, 2009 and 2008

Fiscal Year

	2009	2008
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 404,940	95,288
Accounts receivable, net of allowance for doubtful accounts of \$2,450,000 in 2009 and \$1,850,000 in 2008	22,133,328	14,932,344
Deferred Expenses	11,485,547	11,551,529
<b>Investments</b>		
Deposit Fund Contracts	130,630,005	138,396,004
State of New Jersey Cash Management Fund	156,822,798	147,967,811
<b>Total current assets</b>	<b>321,476,618</b>	<b>312,942,976</b>
<b>Non-Current Assets</b>		
Investments - deposit fund contracts	481,049,232	525,342,844
<b>Total non-current assets</b>	<b>481,049,232</b>	<b>525,342,844</b>
<b>Total assets</b>	<b>\$ 802,525,850</b>	<b>\$ 838,285,820</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 16,283,548	\$ 18,491,838
Obligation for unpaid prize awards	60,654,399	48,606,666
Installment prize awards	130,630,005	138,396,004
Due to State of New Jersey - education and state institutions	104,208,916	84,058,235
<b>Total current Liabilities</b>	<b>311,776,868</b>	<b>289,552,743</b>
<b>Non-Current Liabilities</b>		
Compensated absences	1,143,759	1,028,933
Installment prize awards	481,049,232	525,342,844
<b>Total non-current liabilities</b>	<b>482,192,991</b>	<b>526,371,777</b>
<b>Total liabilities</b>	<b>793,969,859</b>	<b>815,924,520</b>
<b>Net Assets</b>		
Restricted for prize awards or contributions for aid to education and state institutions	5,733,666	19,538,975
Unrestricted	2,822,325	2,822,325
<b>Total net assets</b>	<b>\$ 8,555,991</b>	<b>\$ 22,361,300</b>

See accompanying notes to financial statements

## COMPARATIVE STATEMENTS

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

*Fiscal Year*

	2009	2008
<b>Operating Revenues</b>		
<b>Ticket Sales</b>		
Pick 3	\$ 448,174,837	\$ 457,008,357
Pick 4	265,453,675	265,278,183
Jersey Cash 5	138,973,214	132,499,801
Pick 6 Lotto	90,169,336	86,222,060
Mega Millions	282,504,403	299,215,366
Raffle sales	7,457,060	14,851,700
Instant games	1,270,533,859	1,283,985,517
Sales discounts	-	(584,328)
<b>Total ticket sales</b>	<b>2,503,266,384</b>	<b>2,538,476,656</b>
<b>Other Revenues</b>		
Forfeited prizes	33,948,673	39,676,417
Miscellaneous	899,823	1,154,012
<b>Total operating revenues</b>	<b>2,538,114,880</b>	<b>2,579,307,085</b>
<b>Operating Expenses</b>		
Prize expenses	1,455,242,612	1,471,117,973
Amortization expense	46,491	36,151
Bad debt expense	600,000	600,000
Administrative expenses	21,594,245	22,892,295
Retailer commissions	139,486,773	141,385,821
Online vendor fees	25,119,355	26,502,830
Instant vendor fees	16,430,631	17,379,142
Multi-state fees	24,021	25,906
Online network fees	7,554,455	9,468,948
Drawing broadcast fees	1,141,677	1,141,419
<b>Total operating expenses</b>	<b>1,667,240,260</b>	<b>1,690,550,485</b>
<b>Operating income</b>	<b>870,874,620</b>	<b>888,756,600</b>
<b>Non-operating revenue</b>		
Interest	2,528,987	5,236,546
Income before transfers out	873,403,607	893,993,146
Transfers out - contributions for state aid to education/state institutions	887,208,916	882,058,235
Change in net assets	(13,805,309)	11,934,911
<b>Net assets, beginning of year</b>	<b>22,361,300</b>	<b>10,426,389</b>
<b>Net assets, end of year</b>	<b>\$ 8,555,991</b>	<b>\$ 22,361,300</b>

See accompanying notes to financial statements

## STATEMENTS OF CASH FLOWS

*For Fiscal Years Ended June 30, 2009 and 2008*

	2009	2008
<b>Cash Flows from Operating Activities</b>		
Sales to customers	\$ 1,245,197,013	\$ 1,263,350,327
Payments for prize awards	(319,845,190)	(341,227,487)
Payments for vendor commissions and fees	(51,570,153)	(53,714,391)
Payments to suppliers	(22,767,365)	(23,946,432)
Other payments	(95,956)	(81,521)
<b>Cash flows from annuity operations</b>		
Annuity receipts	130,749,004	138,434,504
Purchases of annuities	(10,441,175)	(8,046,448)
Payments of annuity prizes	(97,532,291)	(103,078,551)
<b>Net cash provided by operating activities</b>	<b>873,693,887</b>	<b>871,690,001</b>
<b>Cash Flows used in Non-Capital Financing Activities</b>		
Contributions for aid to education and state institutions	(867,058,235)	(884,126,155)
<b>Cash Flows from Investment Activities</b>		
Cash Management Fund proceeds	1,270,944,000	1,166,430,000
Cash Management Fund purchases	(1,277,270,000)	(1,154,192,000)
<b>Net cash (used in) provided by investing activities</b>	<b>(6,326,000)</b>	<b>12,238,000</b>
Net increase/(decrease) in cash	309,652	(198,154)
Cash, beginning of year	95,288	293,442
<b>Cash, end of year</b>	<b>\$ 404,940</b>	<b>\$ 95,288</b>
<b>Reconciliation of operating income to net cash provided by</b>		
<b>Operating activities</b>		
Operating Income	\$ 870,874,620	\$ 888,756,600
Changes in assets and liabilities		
Accounts receivable	(7,200,984)	684,912
Investments - deposit fund contracts	52,059,611	75,635,213
Other assets	65,982	1,151,114
Accounts payable and accrued expenses	(2,208,290)	(5,501,400)
Obligation for unpaid prize awards	(40,011,878)	(88,945,163)
Compensating absences	114,826	(91,275)
<b>Net cash provided by operating activities</b>	<b>\$ 873,693,887</b>	<b>\$ 871,690,001</b>

See accompanying notes to financial statements

## NEW JERSEY STATE LOTTERY COMMISSION

### *Notes to Financial Statements June 30, 2009 and 2008*

#### 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.

##### **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. 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, 2009 and 2008, leasehold improvements were \$357,474 and \$279,930, respectively. For the years ended June 30, 2009 and 2008, amortization expense was \$46,491 and \$36,151, 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. 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, 2009 and 2008, forfeited prizes were \$33,948,673 and \$39,676,417, 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, 2009 and 2008, aggregated \$887,208,916 and \$882,058,235, respectively, of which \$104,208,916 and \$84,058,235 was due to the State Treasury at June 30, 2009 and 2008, 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, 2009 and 2008

#### 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 employees 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.

#### 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, 2009 and 2008. The Division's deposits with Wachovia are insured by the Federal Deposit Insurance Corporation up to \$250,000.

	Year Ended June 30	
	2009	2008
Wachovia	\$ 404,940	\$ 95,288
New Jersey Cash Management Fund	\$ 156,822,798	147,967,811
<b>Total Assets</b>	<b>\$157,227,738</b>	<b>\$148,063,099</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, 2009 and 2008, the Division held U.S. government securities totaling \$40,240,140 and \$39,001,921, respectively, which are included 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, 2009, eight companies with annuity contracts totaling approximately \$186,401,955 had a rating under "AA". At June 30, 2009 and 2008, the Division held insurance company annuity contracts totaling \$571,439,097 and \$624,736,927, 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, 2009 and 2008.

#### Concentrations of Credit Risk

"Concentration of Credit Risk" is the risk that relates to the amount of investment at any one entity. The disclosure requirement of this risk factor is limited to investments in excess of 5% of the total. Guaranteed annuity contracts, as stated above, are the only category subject to concentration of credit risk disclosure. A significant portion (in excess of 5% of total) of the Division's investment in annuity contracts at such date is invested with each of the following six companies:

- Ohio National Life
- New York Life Insurance Co.
- Mutual of America
- 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 2013. Future minimum lease payments are as follows:

Year Ending June 30	Amount
2010	\$ 800,458
2011	800,458
2012	802,871
2013	814,933
2014	429,904
2015	154,883
2016	154,883
2017	129,069
	<b>\$ 4,087,459</b>

Rent expense for office facilities at June 30, 2009 and 2008, was \$861,719 and \$959,967, respectively.



Chris Christie,  
*Governor*

Kim Guadagno,  
*Lt. Governor*

Andrew P. Sidamon-Eristoff,  
*State Treasurer*

Robert J. D'Anton,  
*Chairman*

New Jersey **Lottery**



New Jersey Lottery  
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Lawrenceville, New Jersey 08648

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