

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

Financial Statements
and Supplementary Information

June 30, 2009 and 2008

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

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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.

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INDEPENDENT AUDITORS' REPORT (CONTINUED)

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

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

Mercaderes, P.C.
Certified Public Accountants

November 10, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

The following discussion and analysis provides an analytical overview of the financial position and activities of the State of New Jersey, Department of Treasury, Division of State Lottery (the "Division of State Lottery") for the years June 30, 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 approximately 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 well in excess of \$100 million. The various products sold are:

- Instant Games
- Pick 3 (Including Pick 3 Instant Match)
- Pick 4 (Including Pick 4 Instant Match)
- Jersey Cash 5
- 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL STATEMENTS

The Division of State Lottery's financial statements include statements of net assets as of June 30, 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.

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,	
	2009	2008
Current Assets	\$ 322	\$ 313
Deposit Fund Contracts	481	525
Total Assets	803	838
Current Liabilities	312	290
Non-Current Liabilities	482	526
Total Liabilities	794	816
Restricted Net Assets	6	19
Unrestricted Net Assets	3	3
Total Net Assets	\$ 9	\$ 22

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.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL STATEMENTS (CONTINUED)

Statements of Net Assets (Continued)

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

	June 30,	
	2009	2008
Restricted (Unclaimed Prize Reserves)	\$ 6	\$ 19
Unrestricted	3	3
Total Net Assets	<u>\$ 9</u>	<u>\$ 22</u>

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

Statements of Revenues, Expenses and Changes in Net Assets

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

	Year Ended June 30,	
	2009	2008
Operating revenues		
Ticket sales	\$ 2,503	\$ 2,538
Forfeited prizes	34	40
Miscellaneous income	1	1
Total operating revenue	<u>2,538</u>	<u>2,579</u>
Operating expenses		
Prize expenses	1,455	1,471
Bad debt expense	1	1
Administration expense	22	23
Retailer commissions	139	141
Vendor fees	42	44
Networking fees	8	9
Drawing broadcast fees	1	1
Total operating expenses	<u>1,668</u>	<u>1,690</u>
Operating income	870	889
Investment income	3	5
Income before transfers	873	894
Operating transfers - state contributions	887	882
Increase/(decrease) in net assets	<u>\$ (14)</u>	<u>\$ 12</u>

The Division of State Lottery awarded over \$1.455 billion in prize awards in fiscal year 2009 and approximately \$1.471 billion in fiscal year 2008. Over 106 million winning tickets were validated and paid in both fiscal years 2009 and 2008.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL STATEMENTS (CONTINUED)

Statements of Revenues, Expenses and Changes in Net Assets (Continued)

The Division of State Lottery's vendors provided critical services to the Division of State Lottery, including the production, warehousing, distribution and accounting for all lottery tickets. The total compensation paid for the Division of State Lottery's vendors and network fees was \$50 million in fiscal year 2009 and \$53 million in fiscal year 2008. Drawing broadcast fees were approximately \$1 million 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:

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

SUMMARY AND OUTLOOK

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

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

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

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

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

STATEMENTS OF NET ASSETS

	June 30,	
	2009	2008
ASSETS		
Current Assets		
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
Investments		
Deposit Fund Contracts	130,630,005	138,396,004
State of New Jersey Cash Management Fund	<u>156,822,798</u>	<u>147,967,811</u>
Total current assets	321,476,618	312,942,976
Non-Current Assets		
Investments - deposit fund contracts	<u>481,049,232</u>	<u>525,342,844</u>
Total non-current assets	<u>481,049,232</u>	<u>525,342,844</u>
Total assets	<u>\$ 802,525,850</u>	<u>\$ 838,285,820</u>
LIABILITIES		
Current Liabilities		
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	<u>104,208,916</u>	<u>84,058,235</u>
Total current liabilities	<u>311,776,868</u>	<u>289,552,743</u>
Non-Current Liabilities		
Compensated absences	1,143,759	1,028,933
Installment prize awards	<u>481,049,232</u>	<u>525,342,844</u>
Total non-current liabilities	<u>482,192,991</u>	<u>526,371,777</u>
Total liabilities	<u>793,969,859</u>	<u>815,924,520</u>
NET ASSETS		
Restricted for prize awards or contributions for aid to education and state institutions	5,733,666	19,538,975
Unrestricted	<u>2,822,325</u>	<u>2,822,325</u>
Total net assets	<u>\$ 8,555,991</u>	<u>\$ 22,361,300</u>

See accompanying notes to financial statements.

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Year ended June 30,	
	2009	2008
Operating revenues		
Ticket Sales		
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)
Total ticket sales	2,503,266,384	2,538,476,656
Other revenues		
Forfeited prizes	33,948,673	39,676,417
Miscellaneous	899,823	1,154,012
Total operating revenues	2,538,114,880	2,579,307,085
Operating expenses		
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
Total operating expenses	1,667,240,260	1,690,550,485
Operating income	870,874,620	888,756,600
Non-operating revenue		
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 and state institutions	887,208,916	882,058,235
Change in net assets	(13,805,309)	11,934,911
Net assets, beginning of year	22,361,300	10,426,389
Net assets, end of year	\$ 8,555,991	\$ 22,361,300

See accompanying notes to financial statements.

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

STATEMENTS OF CASH FLOWS

	Year ended June 30,	
	2009	2008
Cash Flows from Operating Activities		
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)
Cash flows from annuity operations		
Annuity receipts	130,749,004	138,434,504
Purchases of annuities	(10,441,175)	(8,046,448)
Payments of annuity prizes	<u>(97,532,291)</u>	<u>(103,078,551)</u>
Net cash provided by operating activities	<u>873,693,887</u>	<u>871,690,001</u>
Cash Flows used in Non-Capital Financing Activities		
Contributions for aid to education and state institutions	<u>(867,058,235)</u>	<u>(884,126,155)</u>
Cash Flows from Investment Activities		
Cash Management Fund proceeds	1,270,944,000	1,166,430,000
Cash Management Fund purchases	<u>(1,277,270,000)</u>	<u>(1,154,192,000)</u>
Net cash (used in) provided by investing activities	<u>(6,326,000)</u>	<u>12,238,000</u>
Net increase/(decrease) in cash	309,652	(198,154)
Cash, beginning of year	<u>95,288</u>	<u>293,442</u>
Cash, end of year	<u>\$ 404,940</u>	<u>\$ 95,288</u>
Reconciliation of operating income to net cash provided by operating activities		
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	<u>114,826</u>	<u>(91,275)</u>
Net cash provided by operating activities	<u>\$ 873,693,887</u>	<u>\$ 871,690,001</u>

See accompanying notes to financial statements.

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

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Basis of Accounting

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

Use of Estimates

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

State of New Jersey Cash Management Fund

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

Accounts Receivable

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

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

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Installment Prize Awards and Prize Expenses

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

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

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Revenues from the sale of lottery tickets are recognized as follows:

- “Pick-3,” “Pick-4,” “Jersey Cash 5,” “Pick-6 Lotto,” “Mega Millions,” and various raffle games on the drawing date.
- Instant games are recognized daily, based upon the settlement of instant game inventory packs by selling retailers. Sales adjustments are recorded based upon final reconciliations prepared after the termination of a lottery instant game.
- Sales discounts are recorded for the sales value of tickets provided to retailers at no cost to be used for promotional purposes.

Forfeited Prizes

The State Lottery Law requires that prizes not claimed within one year from the date of the drawing for machine games and within one year from the date of the game’s closing for instant games be forfeited. 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.

Commissions and Fees

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

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

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Vacation and Sick Leave

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

Advertising

The Division of State Lottery uses advertising to promote the sale of lottery tickets. The costs of advertising are expensed as incurred.

B. CASH AND INVESTMENTS

The Division of State Lottery adopted GASB Statement No. 40, "Deposits and Investment Risk Disclosures," which requires uncollateralized deposits exposed to custodial credit risk to be disclosed. The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits that are in possession of an outside party. The following is a summary of the Division's cash deposits by financial institution and the amount exposed to custodial credit risk at June 30, 2009 and 2008. The Division's deposits with Wachovia are insured by the Federal Deposit Insurance Corporation up to \$250,000.

	June 30,	
	2009	2008
Wachovia	\$ 404,940	\$ 95,288
New Jersey Cash Management Fund	156,822,798	147,967,811
Total	<u>\$ 157,227,738</u>	<u>\$ 148,063,099</u>

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

C. FUTURE INSTALLMENT PRIZE AWARDS

The Division purchases annuity, or deposit fund contracts, from insurance companies and U.S. government securities to fund its liability for future installment prize awards. Generally, annuity contracts fund instant product annuity prizes, and U.S. government securities fund annuity prizes for Pick 6 and Mega Millions. An annuity contract represents an obligation by an insurance company to provide a fixed series of payments over a specified period.

U.S. government securities are carried at fair value. At June 30, 2009 and 2008, the Division held U.S. government securities totaling \$40,240,140 and \$39,001,921, respectively, which are included in investments - deposit fund contracts.

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

NOTES TO FINANCIAL STATEMENTS

C. FUTURE INSTALLMENT PRIZE AWARDS (CONTINUED)

Annuity contracts are carried at their current contract values, which are based upon their original purchase prices adjusted for credited interest and amounts already received. Annuity contracts are subject to credit risk. The Division seeks to control its exposure to such credit risk by purchasing annuity contracts only from insurance companies that meet certain minimum standards. Such standards include a minimum required claims payment rating from Standard and Poor's Corporation, a private rating agency, of at least "AA." However, due to the long-term nature of these contracts, the credit quality of the issuer is subject to change. As of June 30, 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 | • Metropolitan Life |
| • New York Life Insurance Co. | • Sun Life Assurance |
| • Mutual of America | • Protective Life |

D. LITIGATION

The Division of State Lottery is a party to a number of lawsuits arising out of the conduct of its business. While the ultimate results of the lawsuits or other proceedings against the Division of State Lottery cannot be predicted with certainty, management of the Division of State Lottery does not expect that these matters will have a material adverse effect on the financial position or results of operations of the Division of State Lottery.

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

NOTES TO FINANCIAL STATEMENTS

E. COMMITMENTS

Contractual Arrangements

The Division of State Lottery maintains a gaming network of over 6,100 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:

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

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

F. SUBSEQUENT EVENTS

In accordance with Statement of Financial Accounting Standard No. 165 ("SFAS 165"), *Subsequent Events*, management has evaluated subsequent events that occurred after the balance sheet date but before November 10, 2009, the date the financial statements were available to be issued. No items were determined by management to require disclosure in accordance with SFAS 165.

SUPPLEMENTARY INFORMATION

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

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

Year ended June 30, 2009

	Budget (unaudited)	Actual	Variance (unfavorable) favorable
Operating revenues			
Ticket Sales			
Pick 3	\$ 456,092,000	\$ 448,174,837	\$ (7,917,163)
Pick 4	258,076,000	265,453,675	7,377,675
Jersey Cash 5	123,760,000	138,973,214	15,213,214
Pick 6 Lotto	78,000,000	90,169,336	12,169,336
Mega Millions	286,000,000	282,504,403	(3,495,597)
Raffle sales	10,000,000	7,457,060	(2,542,940)
Instant games	1,264,725,000	1,270,533,859	5,808,859
Sales discounts	(2,000,000)	-	2,000,000
Total ticket sales	2,474,653,000	2,503,266,384	28,613,384
Other income			
Forfeited prizes	30,840,000	33,948,673	3,108,673
Miscellaneous	1,200,000	899,823	(300,177)
Total operating revenues	2,506,693,000	2,538,114,880	31,421,880
Operating expenses			
Prize expenses	1,423,495,225	1,455,242,612	31,747,387
Amortization expense	25,044	46,491	21,447
Bad debt expense	-	600,000	600,000
Administration expenses	27,118,000	21,594,245	(5,523,755)
Retailer commissions	136,215,915	139,486,773	3,270,858
Online vendor fees	24,895,522	25,119,355	223,833
Instant vendor fees	17,832,623	16,430,631	(1,401,992)
Multi-state fees	50,000	24,021	(25,979)
Online network fees	7,835,720	7,554,455	(281,265)
Drawing broadcast fees	1,140,000	1,141,677	1,677
Total operating expenses	1,638,608,049	1,667,240,260	28,632,211
Operating income	868,084,951	870,874,620	2,789,669
Non-operating revenue			
Interest	4,500,000	2,528,987	(1,971,013)
Income before transfers out	872,584,951	873,403,607	818,656
Contributions for state aid to education and state institutions	888,000,000	887,208,916	(791,084)
Change in net assets	(15,415,049)	(13,805,309)	1,609,740
Net assets, beginning of year	22,361,300	22,361,300	-
Net assets, end of year	<u>\$ 6,946,251</u>	<u>\$ 8,555,991</u>	<u>\$ 1,609,740</u>

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

SCHEDULES OF INSTANT GAME REVENUES

	Year Ended June 30,	
	2009	2008
CROSSWORD (AQ)	\$ 43,009,806	\$ -
CROSSWORD (AR)	42,090,822	-
CROSSWORD (AS)	41,983,564	-
BIG MONEY SPECTACULAR (AB)	37,083,956	-
CROSSWORD (AT)	36,686,169	-
CROSSWORD (AP)	35,995,905	6,245,100
BIG MONEY SPECTACULAR (Z)	35,747,788	-
BIG MONEY SPECTACULAR (AA)	35,603,394	-
BIG MONEY SPECTACULAR (AC)	29,867,652	-
POKER SHOWDOWN	23,722,410	1,137,300
BINGO ZONE C	21,802,348	470,700
SUPER CROSSWORD (O)	21,789,795	-
BIG MONEY SPECTACULAR (Y)	21,768,454	2,661,000
SUPER CROSSWORD (N)	21,294,080	-
DEAL OR NO DEAL	21,079,455	-
SUPER CROSSWORD (P)	20,867,035	-
CANDY CANE CROSSWORD	20,822,649	-
SUPER CROSSWORD (Q)	19,895,365	-
BINGO ZONE (D)	19,817,702	-
NEW JERSEY HOLD'EM POKER	19,533,185	-
BINGO TIMES 10	18,466,255	-
SUPER CROSSWORD (M)	16,879,195	5,242,865
BEAT THE HEAT	16,471,395	-
\$1,000,000 EXTRAVAGANZA	16,221,960	-
IT'S A WONDERFUL LIFE. . . FOR LIFE	15,928,015	-
LUCKY LINES	15,637,983	-
WIN FOR LIFE (A10)	15,635,052	-
SUPER TIC TAC TOE	14,663,151	3,491,448
CASINO NIGHT	14,556,030	-
SUPER PAYDAY	14,399,450	-
KING OF CLUBS	13,133,370	-
LUCKY GIFT	13,061,335	-
MONEY BAG SLINGO	12,922,860	-
DOUBLE BLACKJACK	12,873,500	-
WIN FOR LIFE (A9)	12,823,038	3,420,495
LUCKY SPIN	12,584,870	4,405,220

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

SCHEDULES OF INSTANT GAME REVENUES

	Year Ended June 30,	
	2009	2008
EMERALD'S 7'S	12,189,658	-
HOLIDAY LUCKY TIMES 10	12,182,586	-
\$500 FURY	12,119,484	-
LUCKY TIMES 10	12,110,688	-
SILVER & GOLD	11,799,740	-
ACES HIGH	11,094,945	-
RAISE THE STAKES	11,004,540	6,710,865
DIAMOND 7'S	10,909,192	-
LET IT ROLL	10,906,232	-
\$500 FLURRY	10,604,714	-
BINGO MONEY BALL	10,549,398	-
DOUBLE IT	10,466,226	-
SUPER CASHOUT	10,406,160	-
FLAMINGO BINGO DOUBLER	10,156,302	6,463,455
BIRTHDAY WISHES (D)	10,072,536	112,500
JOKER'S WILD	9,927,240	8,253,040
FLOWERING 50'S	9,785,000	-
\$1,000,000 FORTUNE	9,449,220	12,373,020
SOME LIKE IT HOT	9,123,916	1,795,704
ZODIAC	8,979,604	-
LUCKY HEARTS	8,391,696	-
SUPER CROSSWORD (R)	8,366,675	-
SUNNY MONEY	8,061,350	-
JINGLE BELL BINGO	7,872,726	-
HARLEY DAVIDSON	7,721,886	366,000
\$250,000 ULTIMATE BLACKJACK (2ND E	7,658,730	9,165,880
CLOVERS AND CASH TRIPLER	7,516,630	-
I LOVE DOGS/ I LOVE CATS	7,391,236	-
LUCKY STAR DOUBLER	7,082,620	1,949,952
\$100 WINDFALL	6,762,740	-
THE THREE STOOGES	6,512,628	-
HEARTS ARE WILDS	6,428,066	-
GREAT GOLDEN 8'S	6,410,010	5,506,950
BIG BLACKOUT BINGO	6,231,650	13,018,795
CLUB CASINO	6,178,460	-
LUCKY TIMES 10	5,693,038	-
COLD CASH	5,677,834	-
POKER NIGHT	5,650,125	-

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

SCHEDULES OF INSTANT GAME REVENUES

	Year Ended June 30,	
	2009	2008
7TH INNING STRETCH	5,599,102	3,627,460
RED HOT SLINGO	5,543,796	13,159,629
SHAKE THEM BONES	5,408,345	-
FORD ESCAPE HYBRID	5,390,318	-
LUCKY MATCH	5,172,568	5,604,544
JOKER'S WILD	5,120,217	-
SUPER DUPER DOUBLER (C)	4,784,527	7,595,597
SILVER COINS	4,421,810	12,796,785
YOGI BERRA CASH CATCHER	4,106,852	-
WHEEL OF FORTUNE (2008)	3,980,274	6,113,212
CASH GARDEN TRIPLER	3,973,330	5,629,894
MOTHER'S DAY	3,946,479	-
PAC MAN CASH	3,615,018	-
HOLIDAY GIFT PACK	3,574,315	13,442,984
FATHER'S DAY	3,300,053	2,263,633
BINGO TIMES 10	2,988,720	-
RED HOT & BLUE 7'S	2,917,838	-
HIGH ROLLERS	2,842,875	14,928,130
BIG MONEY SPECTACULAR (X)	2,696,592	21,311,058
CODE QUEST	2,500,452	7,067,250
BINGO ZONE (B)	2,434,826	19,772,934
MATRIMONEY (B)	2,425,524	3,513,676
MONOPOLY (2008)	2,396,078	5,669,134
CROSSWORD (AO)	2,369,982	39,941,187
BIRTHDAY DAY WISHES (E)	2,361,394	-
FATHER'S DAY	2,109,077	-
WINNING LINE BINGO	2,013,957	14,533,791
CHAMPIONSHIP POKER (3RD ED)	1,986,665	17,727,580
GOLD DUST	1,866,900	12,736,350
WIN FOR LIFE (A11)	1,673,502	-
STAR SPANGLED DOUBLER	1,473,068	6,174,220
SUPER CROSSWORD (L)	1,465,745	20,383,655
BETTY BOOP	1,460,184	6,748,076
MOTHER'S DAY	1,325,748	3,658,214
GOT LUCK?	1,189,954	9,511,826
PINK PANTHER	1,113,418	-

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

SCHEDULES OF INSTANT GAME REVENUES

	Year Ended June 30,	
	2009	2008
SUMMER FUN	1,093,075	-
SUDOKU	1,008,120	8,019,330
BLAZIN' HOT BUCKS	815,400	-
BIRTHDAY WISHES (C)	757,236	9,023,878
WIN FOR LIFE (A8)	736,017	16,586,895
X-TREME WINNINGS	705,300	-
CASH TRIPLER	670,407	7,192,597
BINGO ZONE (E)	630,900	-
HOLIDAY TREASURES	544,035	9,900,171
FOOTBALL BLITZ	476,806	9,479,328
HEARTS OF GOLD	422,210	8,824,186
MARILYN MONROE	403,650	6,385,034
NEW JERSEY POKER	339,185	24,705,900
CROSSWORD (AU)	318,600	-
TIC TAC WILD	300,528	2,430,690
ADVENTURES OF A LIFETIME	262,148	4,851,302
SIZZLING SMACKERS	255,456	3,330,244
BIG MONEY SPECTACULAR (W)	238,178	23,530,282
BIG MONEY SPECTACULAR (AD)	214,800	-
DREAMS OF GOLD	213,415	19,697,085
MATRI-MONEY	201,300	-
JACK OF SPADES	183,950	17,760,400
AUTUMN GOLD	175,044	10,865,366
\$250,000 ULTIMATE BLACKJACK	143,620	18,117,970
TREASURE HUNT	141,418	1,180,976
CROSSWORD (AN)	141,000	41,862,729
DEEP SEA DOLLARS	127,296	10,940,832
CREEPY CRAWLY CASH	117,702	5,407,233
SUPER 7'S BINGO	103,185	14,041,695
SUPER CROSSWORD (K)	100,500	20,137,480
MAGNIFICENT 7'S	96,566	12,196,632
DEAL OR NO DEAL	94,010	18,607,820
SAPPHIRE BLUE 7'S	92,676	12,224,858
JACK FROST	83,210	3,359,438
SUPER MATCH 3	77,306	8,096,756
LUCKY DUCK DOUBLER	71,039	7,866,732
DOUBLE IT (B)	65,153	-
SLINGO	56,595	14,460,468

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

SCHEDULES OF INSTANT GAME REVENUES

	Year Ended June 30,	
	2009	2008
HOLIDAY LUCKY TIMES 10	50,078	11,725,198
\$1,000,000 EXPLOSION	46,320	23,607,400
CASINO MULTIPLIER	46,200	19,298,600
50'S FEVER	43,120	10,865,876
KITTY CASH/DOGGY DOUGH	29,930	4,372,978
BREEDERS' CUP GOLD	26,974	5,873,454
BIG MONEY SPECTACULAR (V)	24,700	24,090,846
PIRATE'S GOLD	15,208	1,898,044
HIGH STAKES POKER	12,280	24,193,250
DOMINOES (B)	11,364	6,444,516
SHORE EXCITEMENT	10,532	1,082,178
BINGO ZONE	9,848	22,128,990
SUPER CROSSWORD (J)	9,515	21,816,215
WIN FOR LIFE (AH)	9,297	15,374,430
SUPER DUPER DOUBLER (B)	7,971	7,425,573
LUCKY SIGNS	7,286	6,712,082
LIBERTY BILLS	7,214	1,477,514
CONGRATULATIONS (C) ORANGE	5,272	5,466,540
CROSSWORD (AM)	5,250	43,621,653
CROSSWORD (AL)	4,200	43,265,229
WILD TIME GOLD	4,158	7,270,434
BIG MONEY SPECTACULAR (U)	3,600	22,806,358
SUPER CROSSWORD (I)	3,600	21,883,495
BIG MONEY SPECTACULAR (T)	900	23,127,002
LUCKY DICE MULTIPLIER	600	120,840
CROSSWORD (AK)	300	41,552,097
CROSSWORD (AJ)	-	5,433,624
WIN FOR LIFE (AG)	-	1,130,688
SUPER CROSSWORD (G)	-	1,100,460
PLAYERS CLUB RICHES	-	594,540
DOUBLE WILD CHERRIES	-	371,015
HOT TAMALES	-	345,020
FOOTBALL FEVER	-	275,176
BIG MONEY SPECTACULAR (Q)	-	202,836
LUCKY LINES	-	154,893
RED HOT TRIPLER	-	148,250
ROULETTE DOUBLER	-	132,348

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

SCHEDULES OF INSTANT GAME REVENUES

	Year Ended June 30,	
	2009	2008
SUPER DUPER DOUBLER	-	106,935
POKER NIGHT	-	105,675
PRICE IS RIGHT	-	52,772
SUPER CROSSWORD (F)	-	49,660
HOLIDAY LUCKY TIMES 10	-	33,948
ROULETTE MULTIPLIER	-	32,334
BIG MONEY SPECTACULAR (P)	-	31,166
SIZZLING 7'S	-	30,570
STRIKE IT RICH	-	28,176
CROSSWORD (AH)	-	27,885
LUCKY MILLIONS	-	15,870
THRILLS, CHILLS & BILLS	-	14,387
INSTANT BINGO (D) TEAL BLUE	-	12,900
TREASURE CODE	-	10,095
COSMIC BINGO	-	9,300
WIN FOR LIFE (AE)	-	8,400
GOLDEN TICKET	-	7,200
CHAMPIONSHIP POKER (B)	-	6,150
BIG SMOOCH	-	5,700
DOUBLING RED BINGO	-	5,454
SUPER TIC TAC TOE (B)	-	5,289
BIG MONEY SPECTACULAR (O)	-	3,600
SUPER CROSSWORD (E)	-	2,700
CROSSWORD (AG)	-	2,700
COOL HAND LOOT	-	2,326
BIG MONEY SPECTACULAR	-	300
CONGRATULATIONS (B)	-	300
CROSSWORD (AF)	-	300
DOUBLE YOUR LUCK	-	(1)
BIG MONEY SPECTACULAR (M) YELLOW	-	(4)
AUTUMN DOLLARS	-	(300)
SLOTS OF CASH	-	(300)
WIN FOR LIFE (AE) ORANGE	-	(300)
FLOWERING 50'S	-	(300)
GOLDEN 7'S	-	(300)
INSTANT BINGO (C)	-	(300)
POOL PARTY CASH	-	(530)
WILD 7'S CYBER SLINGO	-	(580)
BIRTHDAY WISHES	-	(600)

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

SCHEDULES OF INSTANT GAME REVENUES

	Year Ended June 30,	
	2009	2008
COUNT CASHULA	-	(600)
STOCKING STUFFER	-	(600)
CASH BONANZA	-	(600)
MAX-A-MILLION	-	(600)
ZODIAC	-	(600)
GO FOR THE GREEN	-	(744)
CROSSWORD (AC) ORANGE	-	(900)
CASH CATCHER	-	(938)
BONUS MILLIONS	-	(1,160)
SUPER RED MILLIONS	-	(1,190)
INSTANT BINGO (B) RED	-	(1,200)
FATHER'S DAY	-	(1,200)
ICASH	-	(1,800)
OFF ROAD DOUGH	-	(2,136)
MONOPOLY (2006)	(4)	1,160,186
CARNIVAL CASH	(5)	71,735
CROSSWORD (AI)	(6)	294,876
BIG MONEY SPECTACULAR	(300)	22,746,874
SUPER CROSSWORD (H)	(300)	15,656,245
MILLION DOLLAR DOUBLER	(300)	8,297,460
BIG MONEY SPECTACULAR (R)	(300)	5,373,474
CHAMPIONSHIP POKER 2ND EDITION	(300)	1,266,250
BIRTHDAY WISHES (B)	(300)	1,098,766
GOLD RUSH	(300)	448,220
STOCKING STUFFER (B)	(300)	122,375
NEW YEAR COUNTDOWN	(300)	116,430
CASHINO	(305)	7,876,810
FLOWERING 50'S	(418)	1,748,212
DOUBLING GREEN BINGO	(450)	6,320,805
\$150,000 BINGO BONANZA	(600)	6,875,120
SILVER 7'S	(600)	2,944,318
INSTANT BINGO (E)	(600)	2,420,786
LUNAR BINGO	(600)	2,267,091
DEAL OR NO DEAL	(600)	1,845,528
FANTASTIC 5'S	(600)	1,024,932
MUSTANG MONEY	(600)	627,860
LUCKY SHAMROCKS	(604)	1,923,482
MOTHER'S DAY WISHES	(624)	1,351,458
FATHER'S DAY	(737)	2,972,850

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

SCHEDULES OF INSTANT GAME REVENUES

	Year Ended June 30,	
	2009	2008
MAJOR LEAGUE BASEBALL WINNINGS	(1,200)	7,970,710
PINBALL WIZARD (B)	(1,500)	2,644,920
SPADE INVADERS	(1,552)	1,253,596
LAUREL & HARDY	(1,612)	1,191,158
FIELD & STREAM	(1,644)	567,594
CARIBBEAN CRUISE POKER	(2,400)	2,020,422
THE DUKE	(3,436)	4,118,994
LUCKY NUMBERS	(6,855)	1,643,046
PRIOR YEAR GAME	(22,619)	(46,432)
	<u>\$ 1,270,533,859</u>	<u>\$ 1,283,985,517</u>

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

SCHEDULES OF ADMINISTRATIVE EXPENSES

	<u>Year ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
Salaries	\$ 8,706,769	\$ 8,884,248
Printing and office supplies	251,090	344,102
Vehicular supplies	536	1,320
Household and clothing	1,140	4,782
Other supplies	-	581
Travel	193,009	222,211
Telephone	110,547	97,597
Postage	90,000	90,000
Data processing	361,592	379,991
Household and security	226,285	273,856
Professional services	385,987	316,183
Advertising	10,230,662	11,128,397
Maintenance - office equipment	5,019	4,784
Maintenance - vehicles	4,085	20,767
Rent - building and grounds	861,719	959,967
Rent - central motor pool	94,107	94,747
Rent - other	3,209	5,881
Vehicular equipment	43,036	61,047
Information processing equipment	22,838	1,475
Other equipment	<u>2,615</u>	<u>359</u>
Total administrative expenses	<u>\$21,594,245</u>	<u>\$22,892,295</u>

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the accompanying financial statements of the State of New Jersey, Department of Treasury, Division of State Lottery (the "Division of State Lottery") as of and for the year ended June 30, 2009, and have issued our report thereon dated November 10, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A control deficiency in an entity's internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS* (CONTINUED)

Internal Control over Financial Reporting (Continued)

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

Compliance and Other Matters

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

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

Mercader, PC
Certified Public Accountants

November 10, 2009