Benefiting Education and Institutions Since 1970

2013

ANNUAL REPORT

"One good turn deserves another," a common saying that was proven accurate here at the Lottery.

John Turner, a water restoration and mitigation expert, came from Chicago to assist in the Superstorm Sandy cleanup. After working with folks in Brooklyn, Point Pleasant, Toms River, and Bay Head, he purchased a Championship Poker Instant Games ticket at Plaza Convenience & Deli, 2459 Highway 33, Neptune, and won $100,000! Nice bonus to go home with John. *Congratulations and thank you from the New Jersey Lottery.*

John Turner, Championship Poker Instant Games winner November 2012

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Jersey Strong *and* Jersey Lucky

Remarkable Moments in Fiscal Year 2013

July 2012

03 "Not 18 Yet? No Bet" campaign launches in cooperation with Council on Compulsive Gambling of New Jersey.

October 2012

29 Superstorm Sandy devastates Jersey Shore.

November 2012

09 Chicago worker cleaning up Superstorm Sandy–devastated homes wins $100,000 playing Championship Poker Instant Game.

16 Lottery Executive Director Hedinger tours Lottery beneficiary Veterans Memorial Home in Vineland.

27 On the eve of the largest Powerball jackpot drawing in the game's history, $587.5 million, Hedinger and the New Jersey Lottery gain national recognition. *ABC World News with Diane Sawyer* followed by Liz Claman from Fox Business Network interviewed Hedinger, discussing the various Lottery beneficiaries and the dream of the mega win.

28 Hedinger is interviewed on NJTV to discuss revenue and promote New Jersey's Lottery beneficiaries and the Powerball game.

January 2013

01 New Jersey Lottery evening game draws now televised live on CBS stations.

25 An $89-million Mega Millions jackpot ticket is sold in New Jersey to Angel Guallpa-Mayancela.

February 2013

14 Second annual Million Dollar Replay program holds its Grand Prize drawing, distributing $1.5 million in cash prizes.

March 2013

23 A sole jackpot-winning ticket is confirmed to be from the New Jersey Lottery, valued at $338 million. The ticket was purchased at Eagle Liquor in Passaic. It was the fourth-largest jackpot in Powerball history.

26 Pedro Quezada claimed his ticket, which had a $211-million cash value, the third-largest cash value in Powerball history.

April 2013

31 The Lottery paid out $220.83 million for top-tier prizes to 12 winners during the month. Games won included: Pick-6, Powerball, $100,000,000 Spectacular, Powerball second-tier prizes, Diamond Spectacular, Win for Life, and Jersey Cash 5 winners.

May 2013

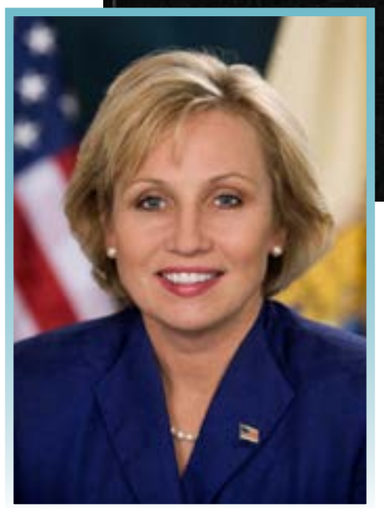
17 New Jersey sells another Mega Millions jackpot-winning ticket. The $198-million jackpot was shared with a Virginia player. New Jersey's Giuseppe "Joe" Garofalo claimed his ticket worth $99 million.

31 New Jersey sells another Mega Millions jackpot-winning ticket; this one went to Darryl and Judith Smith and was worth $30 million.

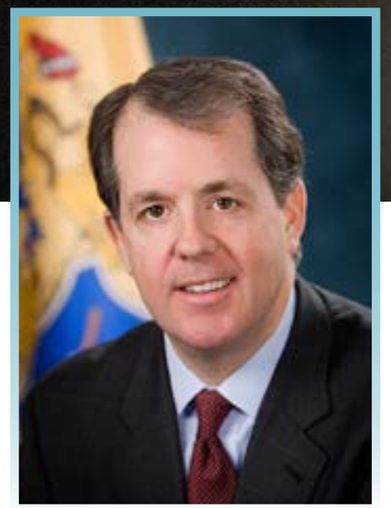
June 2013

20 Hedinger, on behalf of the State of New Jersey, signed a 15-year contract with Northstar New Jersey to provide sales and marketing services for the Lottery.

CHRIS CHRISTIE
GOVERNOR



KIM GUADAGNO
LIEUTENANT GOVERNOR



ANDREW P. SIDAMON-ERISTOFF
STATE TREASURER

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EXECUTIVE DIRECTOR'S LETTER

Superstorm Sandy hit the Northeast on October 29, 2012, leaving a path of destruction in its wake. Thousands were left homeless, 2.4 million households were without power, and New Jersey businesses struggled to recover from the economic impact.

Retailers in all 21 counties were impacted, in varying degrees of severity, from power outages to total building destruction. During it all, the Lottery staff executed their jobs in crisis mode and never missed a draw. They ran the games as scheduled, powered by generators. They handled the draws in accordance with all of the standards, safeguards, and practices, as is typical and usual of the Lottery, including being observed by our independent auditors, Mercadien, P.C., CPAs, guaranteeing the integrity and accuracy of the draw process and results. I've never been prouder of our team and their dedication to their jobs during this crisis situation.

Carole Hedinger, CPA
Executive Director

We were all led and inspired by Gov. Chris Christie and his charge to move forward, regroup, and be "stronger than the storm." Indeed, that mission was taken to heart by residents and at the Lottery. In just over a week, the number of retailers that were non-operational was reduced from 3,462 to 364. Staff from the Lottery and GTECH, our gaming system vendor, worked tirelessly to replace damaged lottery equipment and assisted our retailers in getting back to business.

During this time period, the Lottery's executive team and Treasury Department staff planned and executed a request for proposal seeking a contracted management company to provide advertising, marketing, and sales services for the Lottery. Every successful organization must examine itself for ways to improve. It was determined that a fundamental change was required to achieve the growth necessary to maximize the contribution to Lottery beneficiaries in the future. This fiscal year was the second in which the plan and the process was carefully envisioned, deliberated, and reviewed. It was also the beginning of an era when on June 20, 2013, the state entered into a 15-year contract with Northstar New Jersey, LLC.

This year the Lottery adopted a new slogan, "Jersey Strong and Jersey Lucky." It represents the adversity that was overcome within the state and the Lottery, and highlights its antithesis, the excitement and joy brought about by the four major jackpot wins captured in the state and celebrated around the world.

History was made in New Jersey when four New Jersey players won various game jackpots in January and March and two in May, totaling prizes of more than $556 million. Media madness ensued and galvanized the "Jersey Strong and Jersey Lucky" slogan. But ultimately, the most important number in this report is the Lottery's contribution to the state on behalf of its beneficiaries. Lottery beneficiaries include a broad range of educational institutions and programs from the elementary to the university level. Lottery funds support academic grants and aid programs, provide funding and create opportunities for our most vulnerable citizens, and provide care for our disabled veterans.

Carole Hedinger, Executive Director, greets residents at the Veterans Memorial Home in Vineland.

For the sixth consecutive year, the Lottery's current contribution surpassed the prior year, ensuring that its mission and objectives are being accomplished. The Lottery contributed $1.08 billion in Fiscal Year 2013, which reflects an increase from $950 million in Fiscal Year 2012. The contribution reflects a $120-million accelerated guarantee payment from the Northstar New Jersey contract. The Lottery-playing public also achieved record-breaking rewards with prize payouts of more than $1.67 billion, topping last year's $1.61 billion and making this a winning year for everyone in the state.

The Lottery plays a key role in supporting small businesses throughout the state. More than 6,500 businesses serve as Lottery retailers supporting the mission, providing players with entertainment, and enhancing their business revenues. Retailers earn 5 percent of their Lottery ticket sales in the form of commissions. This fiscal year, the Lottery returned more than $157.8 million in commissions to support small mom-and-pop store owners, chain stores, supermarkets, pharmacies, convenience stores, and other establishments throughout the state, up from $153.6 million in Fiscal Year 2012.

It has been a year of exceptions and an exceptional year in so many ways. I am proud to have led the Lottery through these unique challenges and opportunities and am pleased to present the New Jersey Lottery Annual Report 2013 for your review.

Sincerely,

Carole Hedinger, CPA
Executive Director

NEW JERSEY LOTTERY MISSION STATEMENT

The mission of the New Jersey State Lottery is to raise revenue for maximum contribution to State education and institutions benefiting the citizens of New Jersey through the sale of lottery products. We accomplish this by providing entertaining products through a dynamic public business enterprise built upon honesty, integrity, customer satisfaction, teamwork, and public/private partnerships.

New Jersey Administrative Code Title 17, Chapter 20 17:20-10.1 Division's Mission

"The financial support provided by Lottery-generated revenue is vital to the operation of all of our veterans homes and our mission to ensure every New Jersey veteran receives the proper care they deserve," Zawacki said.

Raymond Zawacki, Deputy Commissioner, Veterans Affairs

WHERE THE MONEY GOES

The New Jersey Lottery is the state's fourth-largest revenue producer. In Fiscal Year 2013, the Lottery grossed more than $2.8 billion in sales, contributing more than $1 billion, or more than 34 percent of sales, to the state in support of its beneficiaries.

A televised commercial was produced in October 2012 featuring various Lottery beneficiaries to inform the public that their participation in Lottery games benefits many people in the community.

Carole Hedinger, Executive Director, visit to Veterans Memorial Home in Vineland.

Since its inception in 1970, the Lottery has dedicated $22 billion to programs that benefit millions of New Jersey residents. Community colleges, universities, the Department of Human Services, the Department of Military and Veterans Affairs, the School Nutrition Programs, and the Marie H. Katzenbach School for the Deaf are just a few of the organizations and programs whose constituencies benefit from Lottery proceeds.

The New Jersey Lottery contributions support educational programs and state-sponsored institutions, including three veterans homes in New Jersey run by the Department of Military and Veterans Affairs.

Executive Director Hedinger made a visit to the Veterans Memorial Home Vineland on Nov. 20, 2012. Raymond Zawacki, Deputy Commissioner for Veterans Affairs, joined Hedinger on a tour of the facility and to meet some of the home's residents.

The Veterans Memorial Home Vineland is the state's longest-running facility, having opened in 1899. It has provided residential and long-term care to New Jersey veterans of every war and armed conflict since the War of 1812. This state-of-the-art nursing home was extensively rebuilt in 2005 and serves 300 residents. It also has a wing dedicated to independent living–a first for a state veterans home in New Jersey. Hedinger and Zawacki toured the accommodations and comprehensive medical care facilities that are available to veterans.

STATE OF NEW JERSEY
Programs Supported By State Lottery Resources For The Fiscal Year Ended June 30, 2013 *(Amounts Expressed In Thousands)*

DEPARTMENT OF AGRICULTURE	
School Nutrition	3,045
DEPARTMENT OF EDUCATION	
Marie H. Katzenbach School For The Deaf	1,941
Non Public School Aid	48,479
Statewide Assessment Program (Grades 4, 8, 11)	9,797
School Construction And Renovations	60,764
TOTAL DEPARTMENT OF EDUCATION	120,981
HIGHER EDUCATIONAL SERVICES	
Senior Public Institutions–Operating Aid	388,961
Tuition Aid Grants	180,079
Higher Education Capital Improvement Plan–Debt Service	12,682
Aid To County Colleges For Operational Costs	61,570
Coordinated Garden State Scholarship Program	848
Student Tuition Assistance Reward Scholarships (NJ STARS)	4,373
Opportunity Program Grants	14,116
Supplementary Education Program Grants	6,946
Veterinary Medicine Education	22
TOTAL HIGHER EDUCATIONAL SERVICES	669,597
DEPARTMENT OF HUMAN SERVICES	
Operation Of Centers For Developmentally Disabled	65,626
Operation Of State Psychiatric Hospitals	184,072
TOTAL DEPARTMENT OF HUMAN SERVICES	249,698
DEPARTMENT OF MILITARY AND VETERANS AFFAIRS	
Operation Of Homes For Disabled Soldiers	41,689
TOTAL REVENUE REALIZED–GAAP BASIS	**1,085,010**

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

Andrew P. Sidamon-Eristoff STATE TREASURER

RESPONSIBLE PLAY

The fiscal year began with a press conference on July 31, 2012, reminding the public and our retail partners of the regulation prohibiting the sale of Lottery tickets to minors. The annual "Not 18 Yet? No Bet" campaign coincided with the American Gaming Association's Responsible Gaming Education Week.

The Lottery continued its commitment to responsible gaming with its consistent partnership with the Council on Compulsive Gambling of New Jersey (CCGNJ). The Lottery maintains a position on the council's Board of Directors to remain actively engaged in the mission.

The Lottery sponsored and its personnel attended the 30th Annual Statewide Conference on Compulsive Gambling held on Oct. 18 and 19, 2012, in Eatontown. Thought leaders, including treatment professionals, educators, and members of the gaming community, discussed issues related to problem gambling.

Gov. Chris Christie issued a proclamation declaring March 2013 as Problem Gambling Awareness Month in New Jersey. In support of his leadership, the New Jersey Lottery and the Department of Human Services Division of Mental Health and Addiction Services worked with the Council on Compulsive Gambling of New Jersey Inc. to educate the public and health care professionals about the warning signs of problem gambling and raise awareness about help that is available. The three organizations held a press conference at Lottery headquarters to mark the event and to build public awareness of signs and treatment options for compulsive gambling.

Carole Hedinger, Executive Director, and Donald Weinbaum, Executive Director, CCGNJ, at retail store press conference.

In a continued effort to address problem gambling issues, the Lottery participated in the Responsible Gaming for the Future forum held on May 1, 2013. The forum included expert participants from the fields of regulatory gaming, the casino industry, academia, criminal justice, and public health. The event goals included the exchange of ideas and perspectives from various groups to work together to promote public awareness of responsible gaming.

The Lottery promotes the responsible-play message for those who may be experiencing a gambling problem or those who may know someone who is.

The Lottery includes the council's toll-free help line number on all instant and online game tickets. Further reinforcing the council's message, all Lottery advertising, including television, radio, billboard signage, and online, includes the 1-800-GAMBLER hotline number. Through those delivery channels, the message is communicated to millions of players each year.

1-800-GAMBLER

Pick 3™

The Pick-3 is one of the Lottery's longest-running and most popular draw-based games. Drawings are held twice daily and provide players multiple strategic play opportunities for 50 cents. Fiscal Year 2013 sales topped $434 million, up from $431 million the prior year. That total represents 15.38 percent of overall ticket sales for the Lottery. Since its inception in 1977, the game has maintained its position as a top seller and ranks first in ticket sales among all online games played in New Jersey, including its proprietary and multi-state games.

The Pick-3 game has a yearly "Green Ball Double Draw" promotion that is a highly anticipated player favorite. The Green Ball Double Draw promotion is popular because it gives players a second chance to win Pick-3 with a single game ticket purchase. Each night during the promotion, after the Pick-3 game draw, a second draw is conducted from a separate game machine. The separate machine contains six white balls and one green ball. If the green ball is drawn, a second bonus set of Pick-3 numbers is drawn, and players have a second chance to win from the same ticket wager. During the promotion, which ran from April 29 through May 26, 2013, sales topped $35.7 million. Players claimed more than $22.2 million in prizes for the month of May, with annual prizes claimed totaling more than $221.8 million.

In total, the Pick-3 game generated more than $184 million toward the Lottery's overall contribution to the Treasury's General Fund for the year. That is an estimated 19.14 percent of the total contribution of $965 million.

Pick 4™

For a mere 50 cents, Lottery players can get big excitement. They can choose to play the Pick-4 game in a straightforward manner or they may employ a more sophisticated wagering strategy to win cash prizes.

There were 561,567 Pick-4 winners in Fiscal Year 2013, who won more than $135 million. Pick-4 is the second-highest revenue producer in the Lottery's online lineup. Sales topped $266 million, up from $261 million the previous year, contributing 9.43 percent to the Lottery's total sales.

The annual Red Ball Doubler promotion for the Pick-3 and Pick-4 is consistently a player favorite, with this year being no exception. It ran from Oct. 1 through Oct. 28, 2013, providing players with the chance to double their money with each win. Every night during the Red Ball promotion, after the regular Pick-3 and Pick-4 drawings occur, a separate machine containing six white balls and one red ball is used for a subsequent drawing. When the red ball is chosen, all winning ticket payouts are doubled. The staple Pick-4 game accounted for an estimated contribution to the state of more than $115 million, up from $112.9 million in Fiscal Year 2012.

Jersey Cash 5™

The Jersey Cash 5 game offers the public the best odds of winning cash prizes on a daily basis. The odds of winning the jackpot are 1 out of 658,008. During Fiscal Year 2013, jackpot prizes were claimed by 205 players, for an average of 17 jackpot wins per month.

The players claimed more than $37 million in prizes, with an average payout of $182,281. Although smaller jackpot wins are not as life-changing as supersized multi-state jackpots, our winners consistently say their good fortune will make their lives much less stressful.

Even with the excellent odds, there are times when the jackpot rolls to create unusually large jackpots. This year, the second-largest jackpot in Jersey Cash 5 history reached $1,930,747 for the April 22, 2013 draw. That jackpot was claimed by one winning ticket purchased in Dunellen (Middlesex County).

Introduced in September 1992, the game remains a favorite among Lottery players with ticket sales topping $144 million, up from $142 million, in the prior fiscal year. Instant Match is a game enhancement also available to Jersey Cash 5 players that provides them with the opportunity to play and win cash prizes at the point of purchase for an additional dollar. Instant Match added more than $3.3 million to total sales of more than $144 million. Overall, Jersey Cash 5 sales contributed more than 5 percent toward total Lottery sales.

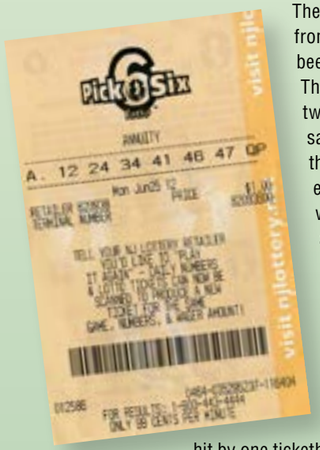
Jaclyn and Brian, Jersey Cash 5 winners, April 2013.

In addition to the top prize winners, more than 1.3 million players claimed lower-tier prizes ranging from $9 to $1,181. In total, more than $72 million in prizes was awarded to Jersey Cash 5 game players during the fiscal year. As with all of our games, New Jersey residents benefited from the game's state contribution of about $65.5 million for the year.

Pick 6 Six lotto™

Pick-6 Lotto, the 33-year-old New Jersey Lottery game, created more than 1.2 million winners this year–six of whom became multi-millionaires.

More than $33.4 million was paid out to players, with prizes ranging from $3 to $5.5 million. The Pick-6 Lotto continues to be a staple in the Lottery lineup of online games, with sales this year topping $65 million, down from the prior year's $84 million. The game contributed 2.32 percent to overall game sales.



The fiscal year sales reduction from the previous year may have been influenced by jackpot size. There is a direct correlation between large jackpots and ticket sales. Players consistently won this year's Pick-6 Lotto jackpot every other month, and they won it each month in February and March.

The $2-million jackpot reset on a regular basis. In contrast, the jackpot rolled for nearly six months during the previous fiscal year, reaching a top prize of $21.5 million, which was hit by one ticketholder on June 25, 2012.

The average monthly jackpot for Fiscal Year 2013 was $3.4 million versus $7.6 million the previous year. Even with reduced sales, the state contribution generated by the game was more than $28 million.

(L-R) Carole Hedinger, James Maggs, attorney, Lauren, Amelia and Robert Talerico, Pick 6 Lotto winners, July 2013.

A Year of Winners!

Instant Games!

The popularity of the Instant Games product lineup was reflected in increased sales this fiscal year to $1.47 billion, up from $1.41 billion. Instant Game ticket sales represent 52.25 percent of all ticket sales, up from 51.38 percent.

A Year of Winners!

The wide variety of games and price points makes the New Jersey Lottery Instant Games line appealing to diverse categories of players. There are dozens of instant games, ranging in price from $1 to $20, offering cash prizes of up to $1 million or the opportunity to win quarterly installments of cash for life. Players enjoy scratching instant tickets and the possibility of winning cash prizes of varying amounts.

Players can enhance special occasions and holidays by sharing themed New Jersey Lottery Instant Games with friends and family year round. Specialty games are available to celebrate Father's Day, Mother's Day, fall cleanup, marriage, Independence Day, St. Patrick's Day, and the holiday season. Game themes also support favorite public passions, including bingo, baseball, blackjack, and poker. The Win for Life game series encourages living long and prospering from an annuity check for life.

This fiscal year, the Spectacular family of games topped the sales chart. Spanning the year, the Spectacular family included the Diamond Spectacular, priced at $20; $100,000,000 Spectacular, priced at $10; Big Money Spectacular, priced at $2; and the Holiday Spectacular game, priced at $2. Ticket sales for the Spectacular series topped $428 million, up from $391 million in Fiscal Year 2012.

The Crossword brand of games, offering tickets ranging in price from $2 to $5, is another player favorite. In Fiscal Year 2013, the Crossword brand of games collectively produced revenues of nearly $315 million, down from $318.7 million in FY 2012.

Combined instant ticket sales generated a state contribution of $373 million, up from $365 million the previous year, for education, programs, and institutions. This represents 38.69 percent of the total state contribution for the year. Additionally, a record $989 million was paid out in cash and prizes to instant ticket winners, up from $946 million in Fiscal Year 2012.

A Year of Winners!

Fiscal Year 2013 was recognized as an exceedingly lucky year for New Jersey Lottery players. The Lottery adopted a new slogan, "Jersey Strong and Jersey Lucky," to honor Superstorm Sandy victims and to acknowledge the numerous, life-changing, jackpot wins during the year.

Angel Guallpa-Mayancela, Mega Millions winner, February 2013.

Overall, Mega Millions ticket sales represented 4.85 percent of overall ticket sales for the year, down from 8.63 percent. The game contributed 6.76 percent, or more than $65.2 million, to the overall state contribution. Retailers' commissions topped $7 million from the game for the year.

New Jersey Mega Millions ticket sales declined in Fiscal Year 2013, closing at $136.8 million, compared with $238 million the previous year. The reduced sales may have resulted from atypically small jackpot amounts. The cumulative average jackpot was $42.9 million in comparison to the prior year's $71.9 million.

The largest jackpot in Fiscal Year 2013 was $190 million, compared with a record-breaking $656-million jackpot the prior year. The upside to the reduced jackpot size was that the game generated 13 jackpot winners across the 44 participating jurisdictions, including three in New Jersey. New Jersey did not have any Mega Millions jackpot winners the previous year.

A single $89-million jackpot-winning ticket was sold to Angel Guallpa-Mayancela, 32, for the Jan. 25, 2013, drawing. The housepainter claimed a cash jackpot prize of $65.7 million. The winning ticket had been purchased in Essex County at Lisa's Angel Corp. in Orange. News of the claim was announced with the headline, "Do Two Angels Make the $65.7 Million Mega Millions Win Heaven Sent?"

More than 316,000 players won nearly $2.4 million in prizes ranging in value from $2 to $250,000 during the 12-draw roll. The state contribution from the roll beginning Dec. 18, 2012, and ending on Jan. 25, 2013, was more than $5.6 million.

Mega Millions excitement heated up in New Jersey once again when, after 19 draws, the jackpot was hit and split by New Jersey and Virginia players on May 17, 2013. The winning New Jersey ticket was purchased in Monmouth County at Kwik Farms in Tinton Falls by Giuseppe "Joe" Garofalo. His cash option share of the $198-million jackpot was worth more than $73 million. During the course of the roll, New Jersey players won more than $5.96 million in prizes, ranging from $2 to $250,000. That roll contributed nearly $14.6 million to the state treasury in support of Lottery beneficiaries.

After two Mega Millions and one Powerball jackpot win in New Jersey, lotteries across the country were astounded to learn that on May 31, 2013, another New Jersey ticket was a jackpot winner. The Mega Millions jackpot ticket was purchased by Judith and Darryl Smith of Mays Landing from the Vineland Truck Stop (Buena) in Atlantic County. The brief, four-draw roll provided its winners with a cash value prize of more than $21.7 million. Lottery beneficiaries received $1.9 million, and New Jersey Lottery players received more than $892,000 in cash prizes.

A new Powerball prize structure was instituted by the Multi-State Lottery Association and adopted in the 44 jurisdictions in which the game is played, including New Jersey, during the second half of Fiscal Year 2012.

One of the new prize structure's intended goals was to decrease the odds of winning smaller cash prizes while increasing the odds of winning the jackpot prize. This change would allow for the jackpot to reach larger amounts as the biweekly game rolled. The larger jackpots generate increased media attention and increased public participation in the game.

The goal was achieved in Fiscal Year 2013, when the largest jackpot in Powerball history was created on Nov. 28, 2012. The roll began on Oct. 6 as the public's excitement, bolstered by national media coverage, continued to grow. Executive Director Hedinger was at the center of the news when on Nov. 27 she was featured on *ABC World News with Diane Sawyer* and on Fox Business News with Liz Claman.

Hedinger used the national platform to tout the game's contribution to New Jersey beneficiaries, share ideas on how to safely participate in a lottery pool, reinforce responsible-play messages, and talk about the life-changing possibilities of a Powerball jackpot. Her messaging was in print, online, and in national broadcasts.

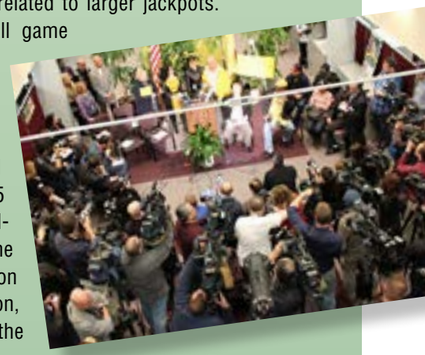
The astronomical jackpot of $587.5 million was won on the evening of Nov. 28 and shared by Missouri and Arizona ticket holders. New Jersey Powerball ticket sales for that November were $55.2 million. The final draw created 11 New Jersey millionaires, who each had five correct white ball numbers printed on their tickets. During the course of that roll, the Lottery generated nearly $28 million toward its contribution to the state's beneficiaries. During November, there were 43 New Jersey winners, who won $10,000 each, and two $40,000 winners. More than 1 million total winners earned $17 million in prizes.

New Jersey was in the limelight again, with another life-changing jackpot on March 23, 2013. It was the lottery win heard around the world when Pedro Quezada, a hardworking immigrant from the Dominican Republic who lived in Passaic County, was the sole ticket holder of the $338 million jackpot.

A press conference was held at New Jersey Lottery headquarters on March 26 featuring the winner and his family. Every major U.S. news media outlet was represented, and the news spread around the globe. The 13-roll run generated more than $17.4 million in contributions toward Lottery beneficiaries. Five additional New Jersey players became millionaires, and more than 623,000 players shared in cash prizes of more than $8.66 million. Powerball sales during the month of March were more than $35-million.

(L-R) Carole Hedinger, Ex. Director, Jennifer Rodriguez, Lottery employee, Pedro Quezada, sole winner of the $338-million March 2013 jackpot, Frank Ragazzo, Lottery Commissioner. Below: Powerball press event for Pedro Quezada.

Ticket sales in Fiscal Year 2013 topped $300 million, up from $183 million, a 63 percent increase from the prior year. The financial data confirms that increased ticket sales are directly correlated to larger jackpots. For the year, the Powerball game generated one New Jersey jackpot winner, 34 new million-dollar winners, 201 winners of $10,000 each, a dozen $40,000 winners, and a total of more than 4.5 million winners of smaller amounts. In return, the state received a contribution of more than $132 million, up from $86 million in the year-earlier period.



VIP CLUB

The Lottery's VIP Club is a robust online lottery membership club with active membership clicking in at 226,755 for Fiscal Year 2013. The club is a free program that offers members various benefits, including the opportunity to participate in special drawings such as the Million Dollar Replay second chance program. VIP Club members are also eligible for other special drawings for prizes such as tickets to concerts, sporting events, and family entertainment. They also receive daily drawing results emailed to them.

The Lottery's VIP Club is home to the Lottery Bonus Zone Second Chance Drawing games, in which even non-winning ticket holders can win a diverse array of prizes. Second chance drawings were available for Instant Games such as Championship Poker, Plants vs. Zombies, Fantasy Blackjack, Frogger, and Take Me Out to the Ballgame. Players had the opportunity to win prizes such as a trip for two to Atlantic City, an iPad, and a trip to the 2013 Major League Baseball World Series. Those opportunities fostered continued interest and excitement in playing the Lottery Instant Games line of products.

MILLION DOLLAR REPLAY

Fiscal Year 2013 marked the second year in which the Million Dollar Replay program provided Lottery players with the opportunity to enter non-winning Instant Games tickets into a second chance drawing. The year-long program began on April 9, 2012, and ran through Jan. 6, 2013. Each quarter, 100 semi-finalists received $250 each and entry into the final Grand Prize Drawing. The Grand Prize Drawing was held on Feb. 14, 2013, at which 15 lucky players were chosen to win one of the top cash prizes: one $1-million grand prize, two $100,000 prizes, three $50,000 prizes, four $25,000 prizes, and five $10,000 prizes, for a total of $1.5 million.

Program awareness and excitement for the second year program spread quickly among Instant Games players. There were more than 7.48 million entries during the year. That was more than double the number of entries for the Fiscal Year 2012 program. Each entry signified $10 worth of non-winning, eligible instant scratch-off tickets.

The third Million Dollar Replay program began on April 3, 2013, and will continue through Fiscal Year 2014, with the Grand Prize Drawing to be held on Feb. 12, 2015.

Lottery beneficiaries received $1 billion in support

Players won more than $1.67 billion in cash prizes

New Jersey businesses earned $157.8 million in commissions

Jersey Strong *and* Jersey Lucky

STATE OF NEW JERSEY
DEPARTMENT OF TREASURY
DIVISION OF STATE LOTTERY

Financial Statements

June 30, 2013

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June 30, 2013

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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 ended June 30, 2013 and 2012. 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)).

As of June 30, 2013, the Division of State Lottery licenses over 6,500 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 vendors in the production, distribution and management of lottery products.

- GTECH Corporation is contracted to provide ticket sales through the online terminal network and the warehousing and distribution of instant tickets and promotional materials. GTECH is also responsible to provide communications between the sales terminals and the GTECH data centers.
- Pollard Bank Note, Scientific Games and GTECH Printing are contracted to print and support Instant Games products.

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 (including Jersey Cash 5 Instant Match)
- Pick-6 Lotto
- Mega Millions
- Powerball

FINANCIAL HIGHLIGHTS

The Division of State Lottery's financial position at June 30, 2013 and 2012, consisted of total assets of $589 million and $603 million, respectively, and total liabilities of $580 million and $591 million, respectively. A substantial portion of the asset and liability amounts relates 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, 2013 and 2012, were $333 million and $400 million, respectively. Net position decreased from $12 million in fiscal year 2012 to $9 million in fiscal year 2013.

FINANCIAL STATEMENTS

The Division of State Lottery's financial statements include statement of net position as of June 30, 2013 and 2012, statement of revenues, expenses and changes in net position for the years ended June 30, 2013 and 2012, and statement of cash flows for the years ended June 30, 2013 and 2012. The financial statements are prepared in accordance with the accounting principles established by the Governmental Accounting Standards Board.

Statement of Net Position

The statements of net position 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 position are summarized (in millions) as follows:

	June 30,		
	2013	2012	2011
Current Assets	$ 334	$ 297	$ 304
Deposit Fund Contracts	255	306	336
Total Assets	589	603	640
Current Liabilities	324	284	293
Non-Current Liabilities	256	307	336
Total Liabilities	580	591	629
Restricted Net Position	2	5	7
Unrestricted Net Position	7	7	4
Total Net Position	$ 9	$ 12	$ 11

Current assets consist of cash and investments in the State of New Jersey Cash Management Fund (the "NJCMF"), accounts receivable, current year annuity investments and deferred expenses. The investment in the NJCMF totaled $238 million and $175 million at June 30, 2013 and 2012, 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 $333 million and $400 million as of June 30, 2013 and 2012, respectively. The Division of State Lottery has annuity investments with ten (10) insurance companies. The total market value of the United States Treasury securities was $43 million and $59 million at June 30, 2013 and 2012, respectively. The annuities due beyond fiscal year 2014 total $255 million and represents the non-current assets reported on the Division of State Lottery's statement of net position.

Current liabilities consist of obligation for unpaid prize awards, accounts payable and accrued expenses and outstanding contributions due to the State of New Jersey's General Fund. The total unpaid prizes due and payable totaled $99 million and $66 million as of June 30, 2013 and 2012, respectively. Also, $78 million was due to annuity winners as of June 30, 2013.

Non-current liabilities represent annuity prize awards due beyond 2014 and also include the total due for unused vacation and sick leave (compensated absences).

FINANCIAL STATEMENTS (CONTINUED)

Statement of Net Position (Continued)

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

	June 30,		
	2013	2012	2011
Restricted (Unclaimed Prize Reserves)	$ 2	$ 5	$ 7
Unrestricted	7	7	4
Total Net Position	$ 9	$ 12	$ 11

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

Statement of Revenues, Expenses and Changes in Net Position

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

	Years Ended June 30,		
	2013	2012	2011
Operating revenues			
Ticket sales	$ 2,821	$ 2,759	$ 2,637
Forfeited prizes	39	38	38
Miscellaneous income	1	1	2
Total operating revenue	2,861	2,798	2,677
Operating expenses			
Prize expenses	1,670	1,618	1,544
Bad debt expense			1
Administration expense	35	37	22
Retailer commissions	158	154	147
Vendor fees	36	37	33
Office of Information Technology/Networking fees	1	1	(1)
Drawing broadcast fees			1
Total operating expenses	1,899	1,846	1,747
Operating income	962	952	930
Non-Operating Revenue (expenses)	120	(1)	
Income before transfers out	1,082	951	930
Operating transfers–state contributions	1,085	950	930
(Decrease) increase In Net Position	$ (3)	$ 1	$ –

FINANCIAL STATEMENTS (CONTINUED)

Statement of Net Position (Continued)

The Division of State Lottery awarded over $1.670 billion in prize awards in fiscal year 2013 and over $1.618 billion in fiscal year 2012. Almost 107 million winning tickets were validated and paid in fiscal year 2013 and over 112 million were validated and paid in fiscal year 2012.

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 $36 million in fiscal year 2013 and $37 million in fiscal year 2012.

Statement of Revenues, Expenses and Changes In Net Position (Continued)

The Division of State Lottery's administrative expenses for the fiscal years 2013 and 2012 totaled $35 million and $37 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, Department of 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 $965 million, 34% of gross sales, in fiscal year 2013 and $950 million, 34% of gross sales, in fiscal year 2012. An additional $120 million was contributed to the State for state aid to education and state institutions as a result of a contract award to Northstar New Jersey Lottery Group, LLC to provide sales and marketing services to the Division of State Lottery. As part of the contract terms Northstar New Jersey provided an "accelerated guarantee payment" in the amount of $120 million (see Summary and Outlook below for more information).

Statement of Cash Flows

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

	Years Ended June 30,		
	2013	2012	2011
Cash flows provided by operating activities	1,022	978	921
Cash flows used in non-capital financing activities	(1,081)	(953)	(923)
Cash flows provided by (used in) investing activities	57	(23)	2
Net (decrease) increase in cash	(2)	2	–

SUMMARY AND OUTLOOK

On June 20, 2013, a competitively bid 15 year contract was awarded to Northstar New Jersey Lottery Group, LLC ("Northstar NJ") to provide sales and marketing services to the Division of State Lottery. As part of the contract terms Northstar NJ provided a $120 million "accelerated guarantee payment" to the Division of State Lottery which is reflected in the FY 2013 financials as non-operating revenue. Bidders were required to provide net income targets for each year of the 15 year contract, plus a stub year for fiscal year 2014. Based on the net income targets, Northstar NJ can earn incentive payments when they meet or exceed their target or incur a penalty payment if their target is missed. Transition of marketing and sales functions began on June 20, 2013 and ended on September 30, 2013 (the Transition Period). During this time, most of the Division of State Lottery's marketing and sales force left State service and became Northstar NJ employees. Also, during this period, existing contracts for marketing, advertising and instant ticket printing services were assigned to Northstar NJ. The base services commencement date is October 1, 2013, this is the date that Northstar NJ will become responsible to meet their net income target for fiscal year 2014, which is the stub year. Northstar NJ's net income target for the stub year period will be prorated based on 9 months of services. Division of State Lottery management looks forward to this exciting partnership with Northstar. In the near future players and retailers can expect to see new promotions and incentive programs, expansion of the retailer base, new games and a myriad of other beneficial changes. With the assistance of Northstar NJ, the Division of State Lottery will continue to enhance its position as a major revenue source for the State of New Jersey. The revenue generated by the Division of State Lottery funds various educational and institutional programs throughout the State of New Jersey.

CONTACTING THE DIVISION OF STATE LOTTERY'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens with a general overview of the Division of State Lottery's finances. If you have any questions about this report or need additional financial information, contact the Division of State Lottery's Deputy Director of Finance at One Lawrence Park Complex, 1333 Brunswick Avenue, PO Box 041, Lawrenceville, NJ 08625-0041.

MERCADIEN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
A Mercadien Group Company

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying basic financial statements of the business-type activities of the State of New Jersey, Department of Treasury, Division of State Lottery (the "Division of State Lottery") as of and for the years ended June 30, 2013 and 2012, and the related notes to financial statements, which collectively comprise the Division of State Lottery's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Division of State Lottery as of June 30, 2013 and 2012, and the changes in its financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages one through five be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying supplementary information such as the schedule of revenues, expenses and changes in net position budget and actual schedule of instant games revenues and schedule of administrative expenses is presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information except for the portion marked "unaudited," has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the portion marked "unaudited," the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 1, 2013, and October 19, 2012, 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* in considering the Division of State Lottery's internal control over financial reporting and compliance.

MERCADIEN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

November 1, 2013

MERCADIEN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
A Mercadien Group Company

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, in accordance with the 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, the financial statements of the business-type activities of the Division of State Lottery as of and for the years ended June 30, 2013 and 2012, and the related notes to financial statements, which collectively comprise the Division of State Lottery's basic financial statements, and have issued our report thereon dated November 1, 2013.

Internal Control over Financial Reporting

In planning and performing our audits of the basic financial statements, we considered the Division of State Lottery's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Division of State Lottery's internal control.

A *deficiency in 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Division of State Lottery's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Division of State Lottery's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

MERCADIEN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

November 1, 2013

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

STATEMENT OF NET POSITION

	June 30,	
	2013	2012
ASSETS		
Current Assets		
Cash	$ 434,249	$ 2,650,488
Accounts receivable, net of allowance for doubtful accounts of $2,395,000 and $2,527,000 in 2013 and 2012, respectively	5,179,496	11,526,442
Deferred expenses	12,823,215	13,912,288
Investments		
Deposit fund contracts	77,833,504	94,163,004
State of New Jersey Cash Management Fund	238,214,847	175,019,302
Total Current Assets	334,485,311	297,271,524
Non-Current Assets		
Investments–deposit fund contracts	254,787,828	305,775,771
Total Non-Current Assets	254,787,828	305,775,771
Total Assets	$ 589,273,138	$603,047,295
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	46,603,451	27,132,172
Obligation for unpaid prize awards	99,041,473	65,771,237
Installment prize awards	77,833,504	94,163,004
Due to State of New Jersey–education and state institutions	101,009,581	97,082,268
Total Current Liabilities	324,488,009	284,148,681
Non-Current Liabilities		
Compensated absences	984,403	1,039,552
Installment prize awards	254,787,828	305,775,771
Total Non-Current Liabilities	255,772,231	306,815,323
Total Liabilities	580,260,240	590,964,004
NET POSITION		
Restricted for prize awards or contributions for aid to education and state institutions	2,139,036	5,209,429
Unrestricted	6,873,862	6,873,862
Total Net Position	$ 9,012,898	$ 12,083,291

See accompanying notes to financial statements.

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Years ended June 30,	
	2013	2012
Operating Revenues		
Ticket Sales		
Pick 3	$ 434,042,304	$ 431,483,145
Pick 4	266,142,981	261,758,786
Jersey Cash 5	144,392,456	142,219,274
Pick 6 Lotto	65,323,206	84,161,564
Mega Millions	136,832,941	238,194,873
Powerball	300,381,206	183,892,771
Instant Games	1,474,285,065	1,417,664,313
Sales discounts		(474,941)
Total Ticket Sales	2,821,400,159	2,758,899,785
Other Revenues		
Forfeited prizes	38,677,399	37,781,380
Miscellaneous	881,235	957,690
Total Operating Revenues	2,860,958,793	2,797,638,855
Operating Expenses		
Prize expenses	1,670,394,764	1,617,771,751
Amortization expense	99,159	59,577
Administrative expenses	34,683,062	36,595,216
Retailer commissions	157,880,945	153,657,527
Online vendor fees	17,398,700	20,273,146
Instant vendor fees	18,140,608	16,739,981
Multi-state fees	14,751	33,773
Office of information technology fees	494,254	494,254
Drawing broadcast fees	126,906	30,702
Total Operating Expenses	1,899,233,149	1,845,655,927
Operating Income	961,725,644	951,982,928
Non-Operating Revenue (Expenses)		
Interest	213,544	204,726
Accelerated guarantee payment	120,000,000	
Loss on sale of publicly traded stock		(885,793)
Income before Transfers Out	1,081,939,188	951,301,861
Transfers Out–contributions for state aid to education and state institutions	1,085,009,581	950,082,268
Change in net position	(3,070,393)	1,219,593
Net position, beginning of year	12,083,291	10,863,698
Net position, end of year	$ 9,012,898	$ 12,083,291

See accompanying notes to financial statements.

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

STATEMENT OF CASH FLOWS

	Years ended June 30,	
	2013	2012
Cash Flows from Operating Activities		
Sales to customers, net	$ 1,399,110,374	$1,385,166,786
Payments for prize awards	(332,958,165)	(345,773,535)
Payments for vendor commissions and fees	(35,953,906)	(38,716,380)
Payment to suppliers	(23,552,491)	(30,471,541)
Other payments	(36,652)	(42,480)
Cash flows from annuity operations		
Annuity receipts	77,794,504	93,826,004
Purchase of annuities	(7,744,300)	(19,141,639)
Payments of annuity prizes	(54,811,336)	(67,198,921)
Net Cash Provided by Operating Activities	1,021,848,028	977,648,294
Cash Flows Used In Non-Capital Financing Activities		
Contributions for aid to education and state institutions	(1,081,082,267)	(953,000,111)
Cash Flows from Investment Activities		
Cash Management Fund Proceeds	1,278,268,000	1,215,541,000
Cash Management Fund Purchases	(1,341,250,000)	(1,238,140,000)
Accelerated Guarantee Payment	120,000,000	
Net Cash Provided by (used in) Investing Activities	57,018,000	(22,599,000)
Net (decrease) increase in cash	(2,216,239)	2,049,183
Cash, beginning of year	2,650,488	601,305
Cash, end of year	$ 434,249	$ 2,650,488
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	961,725,644	951,982,928
Changes in assets and liabilities		
Accounts receivable	6,346,946	16,570,009
Investments–deposit fund contracts and stock	67,317,443	48,111,827
Other assets	1,089,073	(3,904,348)
Accounts payable and accrued expenses	19,471,278	13,400,996
Obligation for unpaid prize awards	(34,047,207)	(48,528,151)
Compensated absences	(55,149)	15,033
Net Cash Provided by Operating Activities	$ 1,021,848,028	$ 977,648,294

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.

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

Use of Estimates

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

State of New Jersey Cash Management Fund

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

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

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

Installment Prize Awards and Prize Expenses

Installment prize awards are recorded based upon the present value of an annuity at terms to yield a series of future payments needed to meet the obligations of the Division of State Lottery for prize disbursements. The Division of State Lottery purchases annuity contracts from insurance companies and U.S. government securities to fund its liability for installment prize awards. An annuity contract represents an obligation by an insurance company to provide a fixed series of payments over a specified period. Annuity contracts are subject to credit risk. The Division of State Lottery seeks to control its exposure to such credit risk by purchasing annuity contracts only from insurance companies that meet certain minimum standards. Such standards include having minimum acceptable ratings from at least two of three private rating companies. The revised minimum acceptable ratings are as follows: Must have ratings equal to or better than from at least two of the three listed credit rating companies. Standard & Poor's "AA-," A.M. Best "A" and Moody's "Aa3." Additionally, the insurance company must meet the following financial capability requirements: 1. Combined capital and surplus of at least $1 billion; 2. Admitted assets of at least $10 billion and 3; Risk based capital ratio of at least 300%. According to the Division of State Lottery's calculation, only one company does not meet the criteria, that of Sun Life Assurance; as of June 30,2013, Sun Life Assurance had annuity contracts totaling approximately $27,421,531. 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 statements 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, 2013 and 2012, leasehold improvements included in deferred expenses were $594,968. For the years ended June 30, 2013 and 2012, amortization expense was $99,159 and $59,577, respectively.

Net Position

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 position represents resources available for current operating expenses in compliance with legal and budgetary restrictions.

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

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 70% of forfeited prizes are to be maintained restricted 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, 2013 and 2012, forfeited prizes were $38,677,399 and $37,781,380, 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, 2013 and 2012, aggregated $1,085,009,581 and $950,082,268, respectively, of which $101,009,581 and $97,082,268 was due to the State Treasury at June 30, 2013 and 2012, respectively. This includes a $120 million Accelerated Guarantee Payment received from Northstar New Jersey Lottery Group, LLC ("Northstar NJ") which was transferred to the State of New Jersey in June 2013.

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.

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. Advertising expense included in administrative expense amounted to $20,736,101 and $23,534,711 for the years ended June 30, 2013 and 2012, respectively.

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, 2013 and 2012. The Division's deposits with Wells Fargo are insured by the Federal Deposit Insurance Corporation up to $250,000

	June 30,	
	2013	2012
Wells Fargo	$ 434,249	$ 2,650,488
New Jersey Cash Management Fund	$ 238,214,847	$ 175,019,302
Total	$ 238,649,096	$ 177,669,790

The New Jersey Cash Management Fund is a common trust fund administered by the Department of the Treasury, Division of Investment. 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 investment in the New Jersey Cash Management Fund is not subject to custodial credit risk under GASB Statement No. 40.

Fair Value Measurements

The Division of State Lottery follows the Fair Value Measurements Topic of the FASB Accounting Standards Codification, which provides a framework for measuring fair value under accounting principles generally accepted in the United States of America.

B. CASH AND INVESTMENTS (CONTINUED)

As defined in the Fair Value Measurements Topic of the FASB Accounting Standards Codification, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Division of State Lottery uses the stock market index approach. Based on this approach, the Division of State Lottery often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Division of State Lottery utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques the Division of State Lottery is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 - Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3 - Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

Fair Value on a Recurring Basis

The table below presents the balances of investments–deposit fund contracts measured at fair value on the statement of net position as of June 30, 2013 and 2012:

	June 30, 2013			
	Total	Level 1	Level 2	Level 3
Annuity Investment Deposit Fund Contracts–U.S. Treasuries	$ 43,409,922	$ 43,409,922	$ -	$ -
Total	$ 43,409,922	$ 43,409,922	$ -	$ -

	June 30, 2012			
	Total	Level 1	Level 2	Level 3
Annuity Investment Deposit Fund Contracts–U.S. Treasuries	$ 58,848,974	$ 58,848,974	$ -	$ -
Total	$ 58,848,974	$ 58,848,974	$ -	$ -

C. FUTURE INSTALLMENT PRIZE AWARDS

The Division of State Lottery 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 Win for Life instant game annuity prizes, and U.S. government securities fund annuity prizes for Pick-6 Lotto, Mega Millions and Powerball. An annuity contract represents an obligation by an insurance company to provide a fixed series of payments over a specified period.

U.S. government securities are carried at fair value as shown in Note B.

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 of State Lottery seeks to control its exposure to such credit risk by purchasing annuity contracts only from insurance companies that meet certain minimum standards. Such standards include having minimum acceptable ratings from at least two of three private rating companies. The revised minimum acceptable ratings are as follows: Must have ratings equal to or better than from at least two of the three listed credit rating companies. Standard & Poor's "AA-," A.M. Best "A" and Moody's "Aa3." Additionally, the insurance company must meet the following financial capability requirements: 1. Combined capital and surplus of at least $1 billion; 2. Admitted assets of at least $10 billion and 3; Risk based capital ratio of at least 300%. According to the Division of State Lottery's calculation, only one company does not meet the criteria, that of Sun Life Assurance; as of June 30, 2013, Sun Life Assurance had annuity contracts totaling approximately $27,421,531. However, due to the long-term nature of these contracts, the credit quality of the issuer is subject to change. At June 30, 2013 and 2012, the Division of State Lottery held insurance company annuity contracts totaling $332,621,332 and $399,938,775, respectively, issued through ten insurance companies, which are due in installments ranging from twenty-five 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 position at June 30, 2013 and 2012.

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 of State Lottery's investment in annuity contracts at such date is invested with each of the following five companies:

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

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.

E. COMMITMENTS

Contractual Arrangements

The Division of State Lottery maintains a gaming network of over 6,500 retailer locations where all games are sold. GTECH Corporation is responsible for operating the network games and providing courier services under a contract which expires October 2,2017.

On June 20, 2013, a competitively bid 15 year contract was awarded to Northstar New Jersey Lottery Group, LLC (Northstar NJ) to provide sales and marketing services to the Division of State Lottery. As part of the contract terms Northstar NJ provided a $120 million "accelerated guarantee payment" to the Division of State Lottery which is reflected in the FY 2013 financials as non-operating revenue. The base services commencement date is October 1, 2013.

Operating Leases

The Division of State Lottery leases certain office facilities under non-cancelable operating lease agreements expiring through fiscal year 2024.

Future minimum lease payments are as follows:

Year ending June 30,	Amount
2014	$ 784,475
2015	793,433
2016	793,433
2017	767,619
2018	638,550
2019-2023	3,271,583
2024	273,229
	$ 7,322,322

Rent expense for office facilities and equipment for the years ended June 30, 2013 and 2012, was $1,070,081 and $1,058,125, respectively.

F. GASB STATEMENT NUMBER 45–ACCOUNTING AND FINANCIAL REPORTING BY EMPLOYERS FOR POST-RETIREMENT BENEFITS OTHER THAN PENSION

The Division of State Lottery is a member of the State of New Jersey's cost sharing multiple-employer plan for health and post-retirement medical benefits. Thus, the Division of State Lottery's portion of this liability and cost is included in the State of New Jersey's CAFR, as such, the Liability of Division of State Lottery's employees is covered under the State plan on an annual basis.

Please refer to State website www.state.nj.us for more information regarding the plan.

G. PENSION PLAN

The Division of State Lottery's employees participate in the Public Employees Retirement System of New Jersey ("PERS"), a cost sharing multiple-employer defined benefit plan. The Division of State Lottery's contribution is determined by State statute and is based upon an actuarial computation performed by the PERS.

The Division of State Lottery's total and covered payroll for the years ended June 30, 2013, 2012 and 2011 was $8,871,554, $9,000,095 and $8,707,752, respectively. The State of New Jersey's (the "State") contribution is based on the employer contribution rate developed by the system's actuary. The rate is then applied against the pension eligible salary for all State employees. The State does not keep track of contributions made to PERS for each separate state agency. For fiscal years ended June 30, 2013 and 2012, the contribution rate was 6.03% and 2.71%, respectively. For fiscal year ended June 30, 2011, the State did not make a pension contribution to the PERS.

The State of New Jersey, Division of Pensions and Benefits, issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State of New Jersey, Division of Pension and Benefits, P.O. Box 295, Trenton, NJ 08625-0295 or by visiting their website at: www.state.nj.us/treasury/pensions.

H. ROUNDING

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

New Jersey **Lottery**

Give Your Dreams A Chance®