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

Financial Statements
and Supplementary Information

June 30, 2008 and 2007

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

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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

We have audited the accompanying financial statements of the State of New Jersey, Department of Treasury, Division of State Lottery (the "Division of State Lottery") as of June 30, 2008 and 2007. These financial statements are the responsibility of the Division of State Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State of New Jersey, Department of Treasury, Division of State Lottery at June 30, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2008 on our consideration of Division of State Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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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.

Mercadien, P.C.
Certified Public Accountants

November 19, 2008

# 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, 2008 and 2007. This statement was prepared by management and should be read in conjunction with the financial statements and notes hereto, which follow this section.

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

The Division of State Lottery licenses over 6,200 retailers throughout the State of New Jersey to act as retailers in the sale of New Jersey Lottery tickets. Lottery retailers receive compensation in the form of commissions on each ticket sold or validated. The Division of State Lottery also contracts with various ticket vendors in the production, distribution and management of lottery products.

- Gtech Corporation is contracted to provide ticket sales through the online terminal network and the warehousing and distribution of instant tickets and promotional materials.
- Pollard Bank Note, Scientific Games and Gtech Printing are contracted to print and support instant game products.
- Verizon Communications is contracted to provide digital communication between the Division of State Lottery's 6,200 sales terminals and the Gtech data center.

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

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

## FINANCIAL HIGHLIGHTS

The Division of State Lottery's financial position at June 30, 2008 and 2007, consisted of total assets of $838 million and $923 million, respectively, and total liabilities of $816 million and $913 million, respectively. A substantial portion of the asset and liability numbers is due to the Division of State Lottery's annuity investment in prize awards. The total amounts invested and due to Division of State Lottery winners as future installment payments at June 30, 2008 and 2007, were $664 million and $739 million, respectively. Net assets increased from $11 million in fiscal year 2007 to $23 million in 2008 because of an increase primarily consisting of restricted net assets (unclaimed prize reserves).

## FINANCIAL STATEMENTS

The Division of State Lottery's financial statements include statements of net assets as of June 30, 2008 and 2007, statements of revenues, expenses and changes in net assets for the years ended June 30, 2008 and 2007, and statements of cash flows for the years ended June 30, 2008 and 2007. The financial statements are prepared in accordance with the accounting principles established by the Governmental Accounting Standards Board.

### 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, | |
|---|---|---|
| | 2008 | 2007 |
| Current Assets | $ 313 | $ 330 |
| Deposit Fund Contracts | 525 | 593 |
| Total Assets | 838 | 923 |
| Current Liabilities | 290 | 318 |
| Non-Current Liabilities | 526 | 594 |
| Total Liabilities | 816 | 912 |
| Restricted Net Assets | 20 | 8 |
| Unrestricted Net Assets | 3 | 3 |
| Total Net Assets | $ 23 | $ 11 |

Current assets consist of cash and investment in the State of New Jersey Cash Management Fund (the "NJCMF"), accounts receivable, current year annuity investments and prepaid expenses. The investment in the NJCMF totaled $148 million and $155 million at June 30, 2008 and 2007, respectively.

The Division of State Lottery funds long-term installment prizes with insurance company annuities and United States Treasury securities. The total value of these investments was $664 million and $739 million as of June 30, 2008 and 2007, respectively. The Division of State Lottery has annuity investments with twelve (12) insurance companies. The total market value of the United States Treasury securities was $39 million and $38 million at June 30, 2008 and 2007, respectively. The annuity prizes due in fiscal years 2009 and beyond totaled $525 million and represent the non-current assets reported on the Division of State Lottery's statements of net assets.

Current liabilities consist of unpaid prize awards, accounts payable and outstanding contributions due to the State of New Jersey General Fund. The total unpaid prizes due and payable totaled $49 million and $62 million as of June 30, 2008 and 2007, respectively. Also, $138 million was due to annuity winners in fiscal year 2008.

Non-current liabilities represent annuity prize awards due in fiscal years 2009 and beyond and also include the total due for unused vacation and sick leave.

## 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, | |
|---|---|---|
| | 2008 | 2007 |
| Restricted (Unclaimed Prize Reserves) | $ 20 | $ 8 |
| Unrestricted | 3 | 3 |
| Total Net Assets | $ 23 | $ 11 |

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, | |
|---|---|---|
| | 2008 | 2007 |
| Operating revenues | | |
| Ticket sales | $ 2,538 | $ 2,351 |
| Forfeited prizes | 40 | 40 |
| Miscellaneous income | 1 | 1 |
| Total operating revenue | 2,579 | 2,392 |
| Operating expenses | | |
| Prize expenses | 1,471 | 1,359 |
| Bad debt expense | 1 | 1 |
| Administration expense | 23 | 28 |
| Retailer commissions | 141 | 131 |
| Vendor fees | 44 | 45 |
| Networking fees | 9 | 7 |
| Drawing broadcast fees | 1 | 1 |
| Total operating expenses | 1,690 | 1,572 |
| Operating income | 889 | 820 |
| Investment income | 5 | 6 |
| Income before transfers | 894 | 826 |
| Operating transfers - state contributions | 882 | 828 |
| Increase/(decrease) in net assets | $ 12 | $ (2) |

The Division of State Lottery awarded over $1.471 billion in prize awards in fiscal year 2008 and approximately $1.359 billion in fiscal year 2007. Over 106 million winning tickets were validated and paid in fiscal year 2008, and over 102 million were validated and paid in fiscal year 2007.

## 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 $53 million in fiscal year 2008 and $52 million in fiscal year 2007. Drawing broadcast fees were approximately $1 million for both 2008 and 2007.

The Division of State Lottery's administrative expenses for the fiscal years 2008 and 2007 totaled $23 million and $28 million, respectively. These administrative expenses include salaries, advertising, auditing services, rent, security, data processing services, office supplies and attorney general fees. The majority of the decrease in administrative expenses for fiscal year 2008 was for advertising.

The Division of State Lottery is required by State of New Jersey law to contribute at least 30% of gross revenues from ticket sales to the State of New Jersey Treasury for state aid for education and state institutions. As a result of various sales initiatives, game enhancements, and efficient operations, the Division of State Lottery contributed $882 million, 34% of total revenues, in fiscal year 2008 and $828 million, 35% of total revenues, in fiscal year 2007. The majority of the increase in contributions to the State is attributed to higher jackpots for Mega Millions and Jersey Cash 5 games over the previous fiscal year and a significant increase in sales of instant games.

### Statements of Cash Flows

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

| | Year Ended June 30, | |
|---|---|---|
| | 2008 | 2007 |
| Cash flows provided by operating activities | $ 872 | $ 819 |
| Cash flows used in non-capital financing activities | (884) | (819) |
| Cash flows used in investing activities | 12 | (3) |
| Net increase (decrease) in cash | $ - | $ (3) |

## SUMMARY AND OUTLOOK

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

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

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

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

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

STATEMENTS OF NET ASSETS

| | June 30, | |
|---|---|---|
| | 2008 | 2007 |
| **ASSETS** | | |
| Current Assets | | |
| Cash | $ 95,288 | $ 293,442 |
| Accounts receivable, net of allowance for doubtful accounts of $1,850,000 in 2008 and $1,250,000 in 2007 | 14,932,344 | 15,617,256 |
| Deferred Expenses | 11,551,529 | 12,702,643 |
| Investments | | |
| Deposit Fund Contracts | 138,396,004 | 146,139,504 |
| State of New Jersey Cash Management Fund | 147,967,811 | 154,969,265 |
| Total current assets | 312,942,976 | 329,722,110 |
| Non-Current Assets | | |
| Investments - deposit fund contracts | 525,342,844 | 593,234,557 |
| Total non-current assets | 525,342,844 | 593,234,557 |
| Total assets | $ 838,285,820 | $ 922,956,667 |
| **LIABILITIES** | | |
| Current Liabilities | | |
| Accounts payable and accrued expenses | $ 18,491,838 | $ 23,993,237 |
| Obligation for unpaid prize awards | 48,606,666 | 61,916,617 |
| Installment prize awards | 138,396,004 | 146,139,504 |
| Due to State of New Jersey - education and state institutions | 84,058,235 | 86,126,155 |
| Total current liabilities | 289,552,743 | 318,175,513 |
| Non-Current Liabilities | | |
| Compensated absences | 1,028,933 | 1,120,208 |
| Installment prize awards | 525,342,844 | 593,234,557 |
| Total non-current liabilities | 526,371,777 | 594,354,765 |
| Total liabilities | 815,924,520 | 912,530,278 |
| **NET ASSETS** | | |
| Restricted for prize awards or contributions for aid to education and state institutions | 19,538,975 | 7,599,765 |
| Unrestricted | 2,822,325 | 2,826,624 |
| Total net assets | $ 22,361,300 | $ 10,426,389 |

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, | |
|---|---|---|
| | 2008 | 2007 |
| Operating revenues | | |
| Ticket Sales | | |
| Pick 3 | $ 457,008,357 | $ 448,807,318 |
| Pick 4 | 265,278,183 | 256,009,771 |
| Jersey Cash 5 | 132,499,801 | 119,265,344 |
| Pick 6 Lotto | 86,222,060 | 87,448,520 |
| Mega Millions | 299,215,366 | 236,629,538 |
| Raffle sales | 14,851,700 | 10,000,000 |
| Instant games | 1,283,985,517 | 1,193,119,013 |
| Sales discounts | (584,328) | (387,672) |
| Total ticket sales | 2,538,476,656 | 2,350,891,832 |
| Other revenues | | |
| Forfeited prizes | 39,676,417 | 40,416,837 |
| Miscellaneous | 1,154,012 | 1,026,409 |
| Total operating revenues | 2,579,307,085 | 2,392,335,078 |
| Operating expenses | | |
| Prize expenses | 1,471,117,973 | 1,359,400,245 |
| Amortization expense | 36,151 | 34,081 |
| Bad debt expense | 600,000 | 600,000 |
| Administrative expenses | 22,892,295 | 28,427,879 |
| Retailer commissions | 141,385,821 | 131,242,482 |
| Online vendor fees | 26,502,830 | 27,992,821 |
| Instant vendor fees | 17,379,142 | 16,690,120 |
| Multi-state fees | 25,906 | 14,939 |
| Online network fees | 9,468,948 | 6,917,906 |
| Drawing broadcast fees | 1,141,419 | 1,141,548 |
| Total operating expenses | 1,690,550,485 | 1,572,462,021 |
| Operating income | 888,756,600 | 819,873,057 |
| Non-operating revenue | | |
| Interest | 5,236,546 | 6,177,216 |
| Income before transfers out | 893,993,146 | 826,050,273 |
| Transfers out - contributions for state aid to education and state institutions | 882,058,235 | 828,326,155 |
| Change in net assets | 11,934,911 | (2,275,882) |
| Net assets, beginning of year | 10,426,389 | 12,702,271 |
| Net assets, end of year | $ 22,361,300 | $ 10,426,389 |

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, | |
|---|---|---|
| | 2008 | 2007 |
| Cash Flows from Operating Activities | | |
| Sales to customers | $ 1,263,350,327 | $ 1,162,505,685 |
| Payments for prize awards | (341,227,487) | (285,197,563) |
| Payments for vendor commissions and fees | (53,714,391) | (52,993,342) |
| Payments to suppliers | (23,946,432) | (29,898,895) |
| Other payments | (81,521) | (187,098) |
| Cash flows from annuity operations | | |
| Annuity receipts | 138,434,504 | 145,634,710 |
| Purchases of annuities | (8,046,448) | (16,389,585) |
| Payments of annuity prizes | (103,078,551) | (104,714,436) |
| Net cash provided by operating activities | 871,690,001 | 818,759,476 |
| Cash Flows used in Non-Capital Financing Activities | | |
| Contributions for aid to education and state institutions | (884,126,155) | (818,355,935) |
| Cash Flows from Investment Activities | | |
| Cash Management Fund proceeds | 1,166,430,000 | 1,121,854,000 |
| Cash Management Fund purchases | (1,154,192,000) | (1,125,192,600) |
| Net cash provided by (used in) investing activities | 12,238,000 | (3,338,600) |
| Net decrease in cash | (198,154) | (2,935,059) |
| Cash, beginning of year | 293,442 | 3,228,501 |
| Cash, end of year | $ 95,288 | $ 293,442 |
| Reconciliation of operating income to net cash provided by operating activities | | |
| Operating Income | $ 888,756,600 | $ 819,873,057 |
| Changes in assets and liabilities | | |
| Accounts receivable | 684,912 | (1,876,940) |
| Investments - deposit fund contracts | 75,635,213 | 59,457,269 |
| Other assets | 1,151,114 | 2,567,725 |
| Accounts payable and accrued expenses | (5,501,400) | 373,879 |
| Obligation for unpaid prize awards | (88,945,163) | (61,757,182) |
| Compensating absences | (91,275) | 121,668 |
| Net cash provided by operating activities | $ 871,690,001 | $ 818,759,476 |

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.

## 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.

### Equipment

The Division follows the state's threshold for capitalizing equipment as follows: machinery and equipment over $20,000 and motor vehicles over $30,000. Purchases that do not meet the threshold for capitalization are recognized as expenses in the statements of revenues, expenses, and changes in net assets in the period during which they are acquired and are included in administrative expenses. As of June 30, 2008 and 2007, leasehold improvements were $279,930 and $279,930, respectively. For the years ended June 30, 2008 and 2007, amortization expense was $36,151 and $34,081, respectively.

### Net Assets

#### Restricted

Amounts restricted for prize awards or contributions for aid to education and state institutions consist of prizes that are not claimed within one year from the date of the drawing for machine games and within one year from the date of game's closing for instant games.

#### Unrestricted

The unrestricted net assets represent resources available for current operating expenses in compliance with legal and budgetary restrictions.

## 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. Seventy percent of forfeited prizes are to be maintained in a reserve for prize awards and are available to augment future prize awards or, at the discretion of the executive director, to augment the Division of State Lottery's contribution for state aid for education and state institutions.

The remaining 30% is unrestricted. Forfeited prizes are recognized as "Other Revenues" during the period forfeited. For the years ended June 30, 2008 and 2007, forfeited prizes were $39,676,417 and $40,416,837, respectively.

### Contributions and Prize Awards

The State Lottery Law requires no less than 30% of total revenues accruing from ticket sales to be paid to the State Treasury for state aid for education and state institutions. Contributions for the years ended June 30, 2008 and 2007, aggregated $882,058,235 and $828,326,155, respectively, of which $84,058,235 and $86,126,155 was due to the State Treasury at June 30, 2008 and 2007, respectively.

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

### 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.

## 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, 2008 and 2007. The Division's deposits with Wachovia are insured by the Federal Deposit Insurance Corporation up to $100,000.

| | Year Ended June 30, | |
|---|---|---|
| | 2008 | 2007 |
| Wachovia | $ 95,288 | $ 293,442 |
| New Jersey Cash Management Fund | 147,967,811 | 154,969,265 |
| Total | $ 148,063,099 | $155,262,707 |

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, 2008 and 2007, the Division held U.S. government securities totaling $39,001,921 and $37,519,143, respectively, which are included in investments - deposit fund contracts.

## 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, 2008, three companies with annuity contracts totaling approximately $58,600,000 had a rating under "AA". At June 30, 2008 and 2007, the Division held insurance company annuity contracts totaling $624,736,927 and $701,854,918, respectively, issued through twelve insurance companies, which are due in installments ranging from ten years to the lifetime of the recipient. A significant portion (in excess of 5% of total) of the Division's investment in annuity contracts at such date is concentrated among the following six companies:

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

The estimated fair value of annuity contracts approximates the carrying value reflected in the accompanying statements of net assets at June 30, 2008 and 2007.

**Concentrations of Credit Risk**

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

## 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 6,200 online locations where all games are sold. GTECH Corporation is responsible for operating the online games and providing courier services under a contract which has been extended until August 2009.

### Operating Leases

The Division of State Lottery leases certain office facilities under non-cancelable operating lease agreements expiring through fiscal year 2013.

Future minimum lease payments are as follows:

| Year Ending June 30, | Amount |
|---|---|
| 2009 | $ 891,500 |
| 2010 | 900,458 |
| 2011 | 900,458 |
| 2012 | 902,871 |
| 2013 | 581,579 |
| 2014 | 154,883 |
| 2015 | 154,883 |
| 2016 | 154,883 |
| 2017 | 129,069 |
| | $ 4,770,584 |

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

# 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, 2008

| | Budget (unaudited) | Actual | Variance (unfavorable) favorable |
|---|---|---|---|
| Operating revenues | | | |
| Ticket Sales | | | |
| Pick 3 | $ 457,363,000 | $ 457,008,357 | $ (354,643) |
| Pick 4 | 258,802,000 | 265,278,183 | 6,476,183 |
| Jersey Cash 5 | 124,100,000 | 132,499,801 | 8,399,801 |
| Pick 6 Lotto | 89,250,000 | 86,222,060 | (3,027,940) |
| Mega Millions | 286,000,000 | 299,215,366 | 13,215,366 |
| Raffle sales | 15,000,000 | 14,851,700 | (148,300) |
| Instant games | 1,194,990,000 | 1,283,985,517 | 88,995,517 |
| Sales discounts | (2,000,000) | (584,328) | 1,415,672 |
| Total ticket sales | 2,423,505,000 | 2,538,476,656 | 114,971,656 |
| Other income | | | |
| Forfeited prizes | 29,989,000 | 39,676,417 | 9,687,417 |
| Miscellaneous | 1,200,000 | 1,154,012 | (45,988) |
| Total operating revenues | 2,454,694,000 | 2,579,307,085 | 124,613,085 |
| Operating expenses | | | |
| Prize expenses | 1,390,319,450 | 1,471,117,973 | 80,798,523 |
| Amortization expense | 25,044 | 36,151 | 11,107 |
| Bad debt expense | - | 600,000 | 600,000 |
| Administration expenses | 24,568,000 | 22,892,295 | (1,675,705) |
| Retailer commissions | 133,402,775 | 141,385,821 | 7,983,046 |
| Online vendor fees | 24,536,678 | 26,502,830 | 1,966,152 |
| Instant vendor fees | 16,849,359 | 17,379,142 | 529,783 |
| Multi-state fees | 50,000 | 25,906 | (24,094) |
| Online network fees | 7,835,720 | 9,468,948 | 1,633,228 |
| Drawing broadcast fees | 1,340,000 | 1,141,419 | (198,581) |
| Total operating expenses | 1,598,927,026 | 1,690,550,485 | 91,623,459 |
| Operating income | 855,766,974 | 888,756,600 | 32,989,626 |
| Non-operating revenue | | | |
| Interest | 3,500,000 | 5,236,546 | 1,736,546 |
| Income before transfers out | 859,266,974 | 893,993,146 | 34,726,172 |
| Contributions for state aid to education and state institutions | 859,000,000 | 882,058,235 | 23,058,235 |
| Change in net assets | 266,974 | 11,934,911 | 11,667,937 |
| Net assets, beginning of year | 10,426,389 | 10,426,389 | - |
| Net assets, end of year | $ 10,693,363 | $ 22,361,300 | $ 11,667,937 |

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

SCHEDULES OF INSTANT GAME REVENUES

| | Year Ended June 30, | |
|---|---|---|
| | 2008 | 2007 |
| CROSSWORD (AM) | $ 43,621,653 | $ - |
| CROSSWORD (AL) | 43,265,229 | - |
| CROSSWORD (AN) | 41,862,729 | - |
| CROSSWORD (AK) | 41,552,097 | 990,300 |
| CROSSWORD (AO) | 39,941,187 | - |
| NEW JERSEY POKER | 24,705,900 | - |
| HIGH STAKES POKER | 24,193,250 | 731,700 |
| BIG MONEY SPECTACULAR (V) | 24,090,846 | - |
| $1,000,000 EXPLOSION | 23,607,400 | - |
| BIG MONEY SPECTACULAR (W) | 23,530,282 | - |
| BIG MONEY SPECTACULAR (T) | 23,127,002 | - |
| BIG MONEY SPECTACULAR (U) | 22,806,358 | - |
| BIG MONEY SPECTACULAR | 22,746,874 | - |
| BINGO ZONE | 22,128,990 | - |
| SUPER CROSSWORD (I) | 21,883,495 | - |
| SUPER CROSSWORD (J) | 21,816,215 | - |
| BIG MONEY SPECTACULAR (X) | 21,311,058 | - |
| SUPER CROSSWORD (L) | 20,383,655 | - |
| SUPER CROSSWORD (K) | 20,137,480 | - |
| BINGO ZONE (B) | 19,772,934 | - |
| DREAMS OF GOLD | 19,697,085 | - |
| CASINO MULTIPLIER | 19,298,600 | - |
| DEAL OR NO DEAL | 18,607,820 | - |
| $250,000 ULTIMATE BLACKJACK | 18,117,970 | - |
| JACK OF SPADES | 17,760,400 | - |
| CHAMPIONSHIP POKER (3RD ED) | 17,727,580 | - |
| WIN FOR LIFE (A8) | 16,586,895 | - |
| SUPER CROSSWORD (H) | 15,656,245 | 6,250,500 |
| WIN FOR LIFE (AH) | 15,374,430 | 1,923,243 |
| HIGH ROLLERS | 14,928,130 | - |
| WINNING LINE BINGO | 14,533,791 | - |
| SLINGO | 14,460,468 | 3,526,902 |
| SUPER 7'S BINGO | 14,041,695 | 1,254,900 |
| HOLIDAY GIFT PACK | 13,442,984 | - |
| RED HOT SLINGO | 13,159,629 | - |

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

SCHEDULES OF INSTANT GAME REVENUES (CONTINUED)

| | Year Ended June 30, | |
|---|---|---|
| | 2008 | 2007 |
| BIG BLACKOUT BINGO | 13,018,795 | - |
| SILVER COINS | 12,796,785 | - |
| GOLD DUST | 12,736,350 | - |
| $1,000,000 FORTUNE | 12,373,020 | - |
| SAPPHIRE BLUE 7'S | 12,224,858 | - |
| MAGNIFICENT 7'S | 12,196,632 | - |
| HOLIDAY LUCKY TIMES 10 | 11,725,198 | - |
| DEEP SEA DOLLARS | 10,940,832 | - |
| 50'S FEVER | 10,865,876 | - |
| AUTUMN GOLD | 10,865,366 | - |
| HOLIDAY TREASURES | 9,900,171 | - |
| GOT LUCK? | 9,511,826 | - |
| FOOTBALL BLITZ | 9,479,328 | - |
| $250,000 ULTIMATE BLACKJACK (2ND E) | 9,165,880 | - |
| BIRTHDAY WISHES (C) | 9,023,878 | - |
| HEARTS OF GOLD | 8,824,186 | - |
| MILLION DOLLAR DOUBLER | 8,297,460 | 10,404,850 |
| JOKER'S WILD | 8,253,040 | - |
| SUPER MATCH 3 | 8,096,756 | - |
| SUDOKU | 8,019,330 | 9,565,335 |
| MAJOR LEAGUE BASEBALL WINNINGS | 7,970,710 | 8,540,435 |
| CASHINO | 7,876,810 | 11,814,405 |
| LUCKY DUCK DOUBLER | 7,866,732 | - |
| SUPER DUPER DOUBLER (C) | 7,595,597 | - |
| SUPER DUPER DOUBLER (B) | 7,425,573 | 4,864,788 |
| WILD TIME GOLD | 7,270,434 | 5,297,162 |
| CASH TRIPLER | 7,192,597 | - |
| CODE QUEST | 7,067,250 | 5,841,129 |
| $150,000 BINGO BONANZA | 6,875,120 | 14,926,645 |
| BETTY BOOP | 6,748,076 | - |
| LUCKY SIGNS | 6,712,082 | 5,742,016 |
| RAISE THE STAKES | 6,710,865 | - |
| FLAMINGO BINGO DOUBLER | 6,463,455 | - |
| DOMINOES (B) | 6,444,516 | 9,770,904 |
| MARILYN MONROE | 6,385,034 | - |

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

SCHEDULES OF INSTANT GAME REVENUES (CONTINUED)

| | Year Ended June 30, | |
|---|---|---|
| | 2008 | 2007 |
| DOUBLING GREEN BINGO | 6,320,805 | 10,476,327 |
| CROSSWORD (AP) | 6,245,100 | - |
| STAR SPANGLED DOUBLER | 6,174,220 | 1,168,500 |
| WHEEL OF FORTUNE (2008) | 6,113,212 | - |
| BREEDERS' CUP GOLD | 5,873,454 | 253,800 |
| MONOPOLY (2008) | 5,669,134 | - |
| CASH GARDEN TRIPLER | 5,629,894 | - |
| LUCKY MATCH | 5,604,544 | - |
| GREAT GOLDEN 8'S | 5,506,950 | - |
| CONGRATULATIONS (C) ORANGE | 5,466,540 | 6,548,714 |
| CROSSWORD (AJ) | 5,433,624 | 36,940,296 |
| CREEPY CRAWLY CASH | 5,407,233 | - |
| BIG MONEY SPECTACULAR (R) | 5,373,474 | 18,150,786 |
| SUPER CROSSWORD (M) | 5,242,865 | - |
| ADVENTURES OF A LIFETIME | 4,851,302 | 1,756,808 |
| LUCKY SPIN | 4,405,220 | - |
| KITTY CASH/DOGGY DOUGH | 4,372,978 | 6,405,788 |
| THE DUKE | 4,118,994 | 3,147,964 |
| MOTHER'S DAY | 3,658,214 | - |
| 7TH INNING STRETCH | 3,627,460 | - |
| MATRIMONEY (B) | 3,513,676 | 4,014,606 |
| SUPER TIC TAC TOE | 3,491,448 | - |
| WIN FOR LIFE (A9) | 3,420,495 | - |
| JACK FROST | 3,359,438 | 8,903,966 |
| SIZZLING SMACKERS | 3,330,244 | 6,413,288 |
| FATHER'S DAY | 2,972,850 | 2,409,223 |
| SILVER 7'S | 2,944,318 | 9,457,562 |
| BIG MONEY SPECTACULAR (Y) | 2,661,000 | - |
| PINBALL WIZARD (B) | 2,644,920 | 11,842,776 |
| TIC TAC WILD | 2,430,690 | 8,318,742 |
| INSTANT BINGO (E) | 2,420,786 | 20,022,070 |
| LUNAR BINGO | 2,267,091 | 14,221,176 |
| FATHER'S DAY | 2,263,633 | - |
| CARIBBEAN CRUISE POKER | 2,020,422 | 7,800,256 |
| LUCKY STAR DOUBLER | 1,949,952 | - |

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

SCHEDULES OF INSTANT GAME REVENUES (CONTINUED)

| | Year Ended June 30, | |
|---|---|---|
| | 2008 | 2007 |
| LUCKY SHAMROCKS | 1,923,482 | 8,923,244 |
| PIRATE'S GOLD | 1,898,044 | 8,384,010 |
| DEAL OR NO DEAL | 1,845,528 | 9,054,526 |
| SOME LIKE IT HOT | 1,795,704 | - |
| FLOWERING 50'S | 1,748,212 | 8,797,386 |
| LUCKY NUMBERS | 1,643,046 | - |
| LIBERTY BILLS | 1,477,514 | 5,912,192 |
| MOTHER'S DAY WISHES | 1,351,458 | 4,395,603 |
| CHAMPIONSHIP POKER 2ND EDITION | 1,266,250 | 18,954,200 |
| SPADE INVADERS | 1,253,596 | 3,924,404 |
| LAUREL & HARDY | 1,191,158 | 6,693,554 |
| TREASURE HUNT | 1,180,976 | 4,077,412 |
| MONOPOLY (2006) | 1,160,186 | 9,978,338 |
| POKER SHOWDOWN | 1,137,300 | - |
| WIN FOR LIFE (AG) | 1,130,688 | 15,394,674 |
| SUPER CROSSWORD (G) | 1,100,460 | 20,768,915 |
| BIRTHDAY WISHES (B) | 1,098,766 | 9,307,916 |
| SHORE EXCITEMENT | 1,082,178 | 4,675,286 |
| FANTASTIC 5'S | 1,024,932 | 11,163,450 |
| MUSTANG MONEY | 627,860 | 5,648,172 |
| PLAYERS CLUB RICHES | 594,540 | 19,109,330 |
| FIELD & STREAM | 567,594 | 4,900,388 |
| BINGO ZONE C | 470,700 | - |
| GOLD RUSH | 448,220 | 18,183,780 |
| DOUBLE WILD CHERRIES | 371,015 | 8,165,031 |
| HARLEY DAVIDSON | 366,000 | - |
| HOT TAMALES | 345,020 | 6,872,618 |
| CROSSWORD (AI) | 294,876 | 42,709,407 |
| FOOTBALL FEVER | 275,176 | 5,603,052 |
| BIG MONEY SPECTACULAR (Q) | 202,836 | 23,227,348 |
| LUCKY LINES | 154,893 | 16,657,023 |
| RED HOT TRIPLER | 148,250 | 11,818,418 |
| ROULETTE DOUBLER | 132,348 | 4,148,200 |
| STOCKING STUFFER (B) | 122,375 | 12,384,125 |
| LUCKY DICE MULTIPLIER | 120,840 | 6,352,263 |

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

SCHEDULES OF INSTANT GAME REVENUES (CONTINUED)

| | Year Ended June 30, | |
|---|---|---|
| | 2008 | 2007 |
| NEW YEAR COUNTDOWN | 116,430 | 10,894,860 |
| BIRTHDAY WISHES (D) | 112,500 | - |
| SUPER DUPER DOUBLER | 106,935 | 12,151,657 |
| POKER NIGHT | 105,675 | 21,418,500 |
| CARNIVAL CASH | 71,735 | 5,363,735 |
| PRICE IS RIGHT | 52,772 | 5,165,740 |
| SUPER CROSSWORD (F) | 49,660 | 21,792,525 |
| HOLIDAY LUCKY TIMES 10 | 33,948 | 11,897,406 |
| ROULETTE MULTIPLIER | 32,334 | 1,744,308 |
| BIG MONEY SPECTACULAR (P) | 31,166 | 23,385,140 |
| SIZZLING 7'S | 30,570 | 11,974,204 |
| STRIKE IT RICH | 28,176 | 2,413,034 |
| CROSSWORD (AH) | 27,885 | 42,958,089 |
| LUCKY MILLIONS | 15,870 | 18,638,440 |
| THRILLS, CHILLS & BILLS | 14,387 | 5,465,630 |
| INSTANT BINGO (D) TEAL BLUE | 12,900 | 20,333,674 |
| TREASURE CODE | 10,095 | 2,258,748 |
| COSMIC BINGO | 9,300 | 9,095,541 |
| WIN FOR LIFE (AE) | 8,400 | 16,238,850 |
| GOLDEN TICKET | 7,200 | 19,409,555 |
| CHAMPIONSHIP POKER (B) | 6,150 | 19,968,765 |
| BIG SMOOCH | 5,700 | 2,224,220 |
| DOUBLING RED BINGO | 5,454 | 11,710,710 |
| SUPER TIC TAC TOE (B) | 5,289 | 6,840,669 |
| BIG MONEY SPECTACULAR (O) | 3,600 | 24,241,558 |
| SUPER CROSSWORD (E) | 2,700 | 19,936,695 |
| CROSSWORD (AG) | 2,700 | 43,191,969 |
| COOL HAND LOOT | 2,326 | 1,393,296 |
| BIG MONEY SPECTACULAR F | 300 | 1,800 |
| CONGRATULATIONS (B) | 300 | 2,722,052 |
| CROSSWORD (AF) | 300 | 42,134,799 |
| XTREME SIGHTS & SOUNDS | - | (344) |
| CYBER SLINGO | - | (400) |
| CYBER SLINGO 5 PACK | - | (749) |
| WINNING LEGENDS | - | (102) |

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

SCHEDULES OF INSTANT GAME REVENUES (CONTINUED)

| | Year Ended June 30, | |
|---|---|---|
| | 2008 | 2007 |
| TETRIS | - | (4,776) |
| YOUNG & RESTLESS | - | (258) |
| VINTAGE BINGO | - | (50) |
| LIFETIME RICHES | - | (305) |
| HOLD'EM POKER | - | (530) |
| HOLLYWOOD STARS | - | (600) |
| SNOW MAGIC | - | (594) |
| DOUBLE DOUBLER | - | (300) |
| HOLIDAY COUNTDOWN | - | (300) |
| PROGRESSIVE BLACKJACK | - | (640) |
| LUCKY STARS DOUBLE PLAY | - | (873) |
| CARIBBEAN STUD POKER | - | (324) |
| HOT SLOTS | - | (645) |
| SUPER TIC TAC TOE | - | (600) |
| SHAMROCK TRIPLER | - | (400) |
| SPRING CASH | - | (576) |
| KING SIZE CASH | - | 17,820 |
| MATRIMONEY | - | 16,662 |
| CONGRATULATIONS | - | 298 |
| WHO'S ON FIRST | - | (1,204) |
| MAGIC LINE BINGO | - | 237 |
| BIG MONEY SPECTACULAR (I) | - | (20) |
| DOUBLE YOUR LUCK | - | (900) |
| LIFETIME RICHES | - | 6,362,200 |
| VINTAGE BINGO | - | (602) |
| ORANGE COUNTY CHOPPERS | - | 27,531 |
| LUCKY 7 | - | (900) |
| BACK 9 | - | 199,680 |
| FATHER'S DAY BONUS | - | (300) |
| 10 TIMES LUCKY (D) | - | (516) |
| TEXAS HOLD'EM POKER | - | 8,910 |
| SINGLE, DOUBLE, TRIPLE PLAY BINGO | - | 137,700 |
| MILLION DOLLAR MANIA | - | 14,400 |
| FIRECRACKER CASH DOUBLER | - | 18,910 |
| DOMINOES | - | 313,218 |

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

SCHEDULES OF INSTANT GAME REVENUES (CONTINUED)

| | Year Ended June 30, | |
|---|---|---|
| | 2008 | 2007 |
| BETTY BOOP | - | 40,930 |
| THE NUMBERS GAME | - | (1,664) |
| DOUBLE YOUR LUCK (C) | - | 28,000 |
| WIN FOR LIFE (AD) | - | 14,139 |
| 24K GOLD | - | 28,028 |
| SPICY HOT CASH | - | 393,654 |
| RAISE THE STAKES | - | 299,660 |
| RUBY RED 7'S | - | 6,374 |
| RUN THE TABLE | - | 393,140 |
| COSMIC BINGO | - | 10,725 |
| ULTIMATE SPORTS GETAWAY | - | 39,900 |
| CROSSWORD (AA) | - | (309) |
| SUPER CROSSWORD | - | (1,505) |
| LUCKY DOLLARS | - | 44,246 |
| WILD CRAZY 8'S | - | 28,672 |
| INSTANT BINGO | - | 7,292 |
| INSTANT BINGO | - | 32,065 |
| CROSSWORD (AB) | - | 3,300 |
| BIG MONEY SPECTACULAR K | - | 8,100 |
| WHEEL OF FORTUNE (2005) | - | 964,408 |
| HOLIDAY LUCKY TIMES 10 | - | 81,850 |
| HOLIDAY WISHES | - | 233,181 |
| BIG MONEY SPECTACULAR (L) | - | 109,304 |
| 4 LEAF LUCK | - | 1,831,012 |
| PINK PANTHER | - | 2,076,272 |
| SUPER CROSSWORD | - | 45,545 |
| MOTHER'S DAY RICHES | - | 1,122,049 |
| CROSSWORD (AD) LIME GREEN | - | 407,796 |
| LUCKY TIMES 20 | - | 6,391,750 |
| SUPER CROSSWORD (C) | - | 1,483,100 |
| CROSSWORD (AE) RED | - | 9,797,934 |
| SUPER CROSSWORD (D) PURPLE | - | 20,245,520 |
| BIG MONEY SPECTACULAR (N) GREEN | - | 23,387,652 |
| DOUBLE YOUR LUCK D | (1) | 7,749,174 |
| BIG MONEY SPECTACULAR (M) YELLOW | (4) | 4,022,934 |

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

SCHEDULES OF INSTANT GAME REVENUES (CONTINUED)

| | Year Ended June 30, | |
|---|---|---|
| | 2008 | 2007 |
| AUTUMN DOLLARS | (300) | 627,884 |
| SLOTS OF CASH | (300) | 1,342,066 |
| WIN FOR LIFE (AE) ORANGE | (300) | 1,975,554 |
| FLOWERING 50'S | (300) | 2,353,574 |
| GOLDEN 7'S | (300) | 1,401,730 |
| INSTANT BINGO (C) | (300) | 1,752,030 |
| POOL PARTY CASH | (530) | 254,776 |
| WILD 7'S CYBER SLINGO | (580) | 253,565 |
| BIRTHDAY WISHES | (600) | 310,228 |
| COUNT CASHULA | (600) | 203,235 |
| STOCKING STUFFER | (600) | 119,390 |
| CASH BONANZA | (600) | 5,762,080 |
| MAX-A-MILLION | (600) | 5,020,350 |
| ZODIAC | (600) | 4,383,030 |
| GO FOR THE GREEN | (744) | 2,501,036 |
| CROSSWORD (AC) ORANGE | (900) | 28,365 |
| CASH CATCHER | (938) | 2,884,910 |
| BONUS MILLIONS | (1,160) | 4,443,840 |
| SUPER RED MILLIONS | (1,190) | 12,719,090 |
| INSTANT BINGO (B) RED | (1,200) | 187,874 |
| FATHER'S DAY | (1,200) | 2,160,432 |
| ICASH | (1,800) | 814,056 |
| OFF ROAD DOUGH | (2,136) | 375,072 |
| PRIOR YEAR GAME | (46,432) | (27,436) |
| | $ 1,283,985,517 | $ 1,193,119,013 |

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

SCHEDULES OF ADMINISTRATIVE EXPENSES

| | Year ended June 30, | |
|---|---|---|
| | 2008 | 2007 |
| Salaries | $ 8,884,248 | $ 8,721,279 |
| Printing and office supplies | 344,102 | 309,761 |
| Vehicular supplies | 1,320 | 546 |
| Household and clothing | 4,782 | 5,564 |
| Other supplies | 581 | 136 |
| Travel | 222,211 | 207,552 |
| Telephone | 97,597 | 97,571 |
| Postage | 90,000 | 90,000 |
| Data processing | 379,993 | 368,796 |
| Household and security | 273,856 | 159,497 |
| Professional services | 316,183 | 286,114 |
| Advertising | 11,128,397 | 16,782,637 |
| Maintenance - building and grounds | 4,784 | 8,835 |
| Maintenance - office equipment | 20,767 | 21,385 |
| Maintenance - vehicles | - | 64 |
| Rent - building and grounds | 959,967 | 1,183,496 |
| Rent - central motor pool | 94,747 | 93,360 |
| Rent - other | 5,881 | 5,569 |
| Vehicular equipment | 61,047 | 25,994 |
| Information processing equipment | 1,473 | 13,961 |
| Other equipment | 359 | 45,762 |
| Total administrative expenses | $22,892,295 | $28,427,879 |

MERCADIEN, P.C.
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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*

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

We have audited the accompanying financial statements of the State of New Jersey, Department of Treasury, Division of State Lottery (the "Division of State Lottery") as of June 30, 2008, and have issued our report thereon dated November 19, 2008. 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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45 YEARS OF SERVICE TO THE COMMUNITY

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 SAS 112 letter to the 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.

Mercadien, P.C.
Certified Public Accountants

November 19, 2008