Annual Report 2012

New Jersey **Lottery**

Give Your Dreams A Chance®

Benefiting Education and Institutions Since 1970

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Gets Bigger, Better and Offers More

New Jersey Lottery Annual Report 2012 VOL. 41 NO. 2

Starting Jackpots Double to $40 Million with Better Overall Odds for More Winners beginning January 15, 2012

BIGGER JACKPOTS

The Lottery launched the supercharged Powerball game featuring a doubled starting jackpot of $40 mil-

pool shrank to 35 from 39, producing better overall odds of winning a prize in the game. The odds of winning a prize improved to 1 in 31.8 in the revamped game from 1 in 35. The Powerball jackpots in the revamped game start at $40 million which is double the prior starting jackpot of $20 million.

The new Powerball game continued to offer players nine ways to win prizes, with its second prize moving up to $1 million in cash from the prior $200,000 and increased the lowest prize level (for those who match just the Powerball number) to $4 from $3. New Jersey Powerball players profited from the update and claimed more than $87 million dollars in Fiscal Year 2012.

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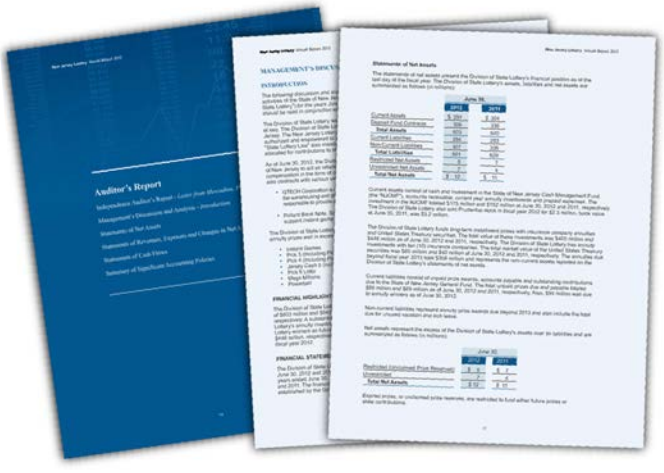

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Remarkable Moments in Fiscal Year 2012

July 01 2011
New Jersey was the first lottery in the nation to broadcast its game draws live on the Internet posting to Facebook and You Tube. The broadcasts were shot live in a newly created in-house production studio run exclusively by Lottery employees.

August 01 2011
NJ State Lottery, in conjunction with the Council on Compulsive Gambling of New Jersey, held a press conference to kick off the annual *"Not 18 Yet? No Bet"* awareness campaign. The organizations' leaders renewed their commitments to responsible play and the prevention of underage gambling. The campaign is held each year to coincide with the American Gaming Association's Responsible Gaming Education Week.

September 22 2011
NJ Lottery participated in the Council on Compulsive Gambling of New Jersey's Annual Statewide Conference in Princeton.

October 08 2011
The Prudential Center becomes the first retail Lottery store in an arena setting. The Prudential Center, home of the New Jersey Devils hockey team, held a ribbon cutting ceremony commemorating the event. The store opening coincided with the season opening game of the New Jersey Devils National Hockey League team.

October 09 2011
The fiscal year's top Jersey Cash 5 jackpot of $1,118,424 was won by one lucky ticket holder. The retailer that sold the winning ticket was Quick Shop Mini Mart located at 234 Old Stage Road in East Brunswick, Middlesex County.

November 04 2011
Carole Hedinger, Executive Director of the NJ Lottery and newly appointed Region I Director of the North American Association of State and Provincial Lotteries (NASPL), announced that the NASPL group had chosen Atlantic City as the destination for its 2014 convention.

December 12 2011
The Lottery once again joined forces with the Council on Compulsive Gambling of New Jersey to discourage the gifting of lottery tickets to minors during the Holiday Season and throughout the year. The Council and the Lottery continually work together to discourage underage gambling.

December 13 2011
Social media cross promotions with Lottery sponsored brands, such as the New Jersey Devils, become a mainstay of marketing techniques. A Facebook promotion with the Devils provided fans from both organizations with an opportunity to win NJ Devil's game tickets, the use of a private suite and VIP access to a New Year's Eve Fireworks Spectacular.

January 15 2012
The new Powerball game was launched across the country. It featured a doubled starting jackpot of $40 million, better odds of winning any prize, and more chances to win a prize of at least $1 million. The ticket price also changed to $2 from $1. The Power Play multiplier feature was still offered for an additional $1. The Power Play multiplier provided players with the chance to win a $2 million cash prize for correctly matching five numbers.

February 09 2012
The classic *Win for Life* instant game got a new design and, in celebration of the revival, a new promotional activity called *Win for Life* Lottery Pong was introduced. Launched at Prudential Center, Newark, in conjunction with the New Jersey Devils hockey game, the promotion featured a fast-moving game where participants tested their skills. The public was thrilled with the activity and Lottery Pong is now played at many of Lottery's public events.

March 21 2012
A Tinton Falls couple brings a $70 million Powerball jackpot win to the Garden State. The percentage of overall ticket sales during the brief roll, that began on March 10 and ended on March 21, contributed an estimated $2.3 million to the State.

March 30 2012
The month of March is often associated with the term "March Madness" and 2012 was no exception. The Mega Millions jackpot had grown to a history-making jackpot of $656 million before being hit by players in Kansas, Illinois and Maryland. The Mega Millions roll began on Friday, Jan. 27 with the Friday, March 30 draw being the nineteenth. New Jersey residents benefitted from the frenzy with one ticket holder winning $1 million,19 ticket holders winning $250,000 each, 146 ticket holders winning $10,000 each and more than 1.93 million NJ Lottery tickets garnering prizes of varying amounts. Additionally, this roll provided a State contribution of more than $40 million!

April 11 2012
The first quarterly drawing winners of the 2012 Million Dollar Replay program were announced on this date. The Million Dollar Replay second chance program gives New Jersey Lottery players the opportunity to turn their non-winning instant game tickets into cash. Throughout the year, quarterly drawings are held at which 100 entrants are chosen as semi-finalists for the million dollar grand prize drawing. All qualified semifinalists who are not chosen as grand prize winners receive a $250 consolation prize. The grand prize drawing was held on Feb. 14, 2012.

May 06 2012
The *"Play It Again"* online game feature was initiated allowing customers the opportunity to hand a retailer a prior played game ticket with their favorite numbers and a new ticket for the same game, wager amount, number of wagers, specialty features including Megaplier or Power Play, if initially played, and numbers will be produced for the next available game draw. This feature is available for all of the online games sold by the Lottery.

June 20 2012
Five lucky New Jersey Lottery winners split the sizable $1,081,540 Jersey Cash 5 jackpot. The winning tickets were sold in Monmouth, Passaic, Union and two in Middlesex Counties with each winning ticket being worth $216,308.

June 21 2012
A video documenting Carole Hedinger's tour of the Marie Katzenbach School for the Deaf, a lottery beneficiary, was released. The tour was led by its Superintendent, Dr. Angel Ramos, who presented the history of the facility, its current student profile, and his hope for its future. The School has been serving the academic needs of deaf and hard-of-hearing children from elementary through high school for more than 100 years. The Lottery has been providing yearly funding to the Katzenbach School through state contributions since 1981 and in Fiscal Year 2012, contributed $1.85 million toward fulfilling its mission.

Governor Chris Christie

Forty two years ago, in November of 1969, New Jersey residents voted to create a state Lottery whose sole mission was to generate revenue to support educational institutions and grant programs, and to provide vital services for our disabled veterans and residents with developmental and psychiatric disabilities. The Lottery continues to achieve its goals, steadily increasing revenue and upholding its mission with a dedication to creative programming and innovative business management.

As the State's fourth largest revenue producer, the Lottery grossed over $2.7 billion in revenue and contributed nearly 35 percent of sales, equaling to more than $950 million, to the State Treasury in Fiscal Year 2012. Since its inception, the Lottery has dedicated nearly $21 billion to programs that benefit millions of New Jersey residents. Community Colleges, Universities, the Departmentof Human Services, the Department of Military and Veterans Affairs, the School Nutrition Program, and the Marie Katzenbach School for the Deaf are just a few of the organizations and programs whose constituencies benefit from Lottery proceeds.

The Lottery also plays a key role in supporting small businesses throughout the State. Nearly 6,500 businesses serve as Lottery retailers building long lasting relationships with Lottery players while creating new customers for their stores. Retailers earn five percent of their lottery ticket sales in the form of commissions in addition to the favorable marketing opportunity that increases store traffic and sales by providing Lottery entertainment. This fiscal year, the Lottery returned more than $153 million in commissions to independent retailers, chain stores, supermarkets, pharmacies, convenience stores and other establishments throughout the State.

Focused on the future, the Lottery is an evolving business that embraces industry change and innovation while maintaining its unwavering mission to provide New Jersey residents with vital programs and services.

Kim Guadagno
Lt. Governor

Chris Christie
Governor

Andrew P. Sidamon-Eristoff
State Treasurer

Commissioners

Frank V. Ragazzo
Chairman

Dr. Munr Kazmir
Vice Chairman

Al Alvarez, Esq.
Commissioner

Robert J. D'Anton
Commissioner

Robert Slater
Commissioner

Thomas Tucci Jr.
Commissioner

New Jersey Lottery Mission Statement

The mission of the New Jersey State Lottery is to raise revenue for maximum contribution to 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 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

Carole Hedinger, CPA
Executive Director

Executive Director

It is my privilege to affirm that the Lottery has once again fulfilled its mission of providing revenue to the State in support of vital programs and institutions that enrich the lives of its residents. Lottery revenue supports a broad range of educational institutions and programs from the elementary to the university level; it affords academic grants and aid programs; funding creates opportunities for our most vulnerable citizens and provides care for our disabled veterans. This year marks the fifth consecutive year that the annual Lottery contribution has increased from the prior year, ensuring that its mission and objectives are being accomplished. The Lottery contributed $950 million which reflects an increase of 2.16 percent from the prior year from revenue of more than $2.7 billion. The Lottery playing public also achieved record breaking rewards with prize payouts of more than $1.6 billion, an increase of $74 million from FY 2011, making this a winning year for everyone in the State.

While the financial success of the Lottery is our goal, the embodiment of the mission is recognized by witnessing the men, women and children who benefit from our work each year. It was my honor to meet some of Lottery's beneficiaries and to learn how through our efforts their lives have been enriched. On a visit to the Marie Katzenbach School for the Deaf, Dr. Angel Ramos, superintendent, led me on a tour of the school's campus where I met with some of the elementary and high school students. Many of the high school students shared their plans to attend post-high school academic and trade programs. They expressed how their education at the school allowed them to gain confidence in themselves and the awareness of their ability to contribute to society while acquiring the skills required to doing so. These are outcomes that Lottery revenue makes possible in our communities. The Marie Katzenbach School has been serving the needs of deaf and hard-of-hearing children for more than 100 years. The Lottery provides yearly funding to the Katzenbach School and has been doing so since 1981. The Lottery provided $1.85 million to the school in Fiscal Year 2012 to continue to enhance the lives of our young people and build a stronger future for our state.

In its 41 year history, the Lottery has dedicated nearly $21 billion to programs that benefit millions of New Jersey residents. Some of the Lottery beneficiaries include: Community Colleges, Universities, the Department of Human Services, the Department of Military and Veterans Affairs, the School Nutrition Program, and the Marie Katzenbach School for the Deaf.

Left to right: Dr. Angel Ramos, Ronnie (student), Carole Hedinger

Marie Katzenbach School visit.

The Lottery also plays a key role in supporting small businesses throughout the State. Nearly 6,500 businesses serve as Lottery retailers supporting the mission, providing players with entertainment and enhancing their business revenues. Retailers earn five percent of their lottery ticket sales in the form of commissions. Last fiscal year, the Lottery returned more than $153 million in commissions to support chain stores, supermarkets, pharmacies, convenience stores and other establishments throughout the state.

I am pleased to present the New Jersey Lottery 2012 Annual Report for your review.

Sincerely,

Carole Hedinger, CPA
Executive Director

Where The Money Goes

The New Jersey Lottery is the State's fourth largest revenue producer. In Fiscal Year 2012, the Lottery grossed over $2.7 billion in sales and contributed nearly 35 percent of sales amounting to more than $950 million to the State. The New Jersey Lottery contributions help fund education and institutions making everyone in the state a winner.

Since its inception more than forty-one years ago, the Lottery has dedicated nearly $21 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 Program, and the Marie Katzenbach School for the Deaf are just a few of the organizations and programs whose constituencies benefit from Lottery proceeds.

The New Jersey Lottery also plays a key role in supporting small businesses throughout the State. Nearly 6,500 businesses serve as Lottery retailers and act as a direct link between the Lottery and its players. Retailers earn five percent of their lottery ticket sales in the form of commissions. Last fiscal year, the Lottery returned more than $153 million in commissions to support chain stores, supermarkets, pharmacies, convenience stores and other establishments throughout the State.

State of New Jersey
Programs Supported by State Lottery Resources for the Fiscal Year Ended June 30, 2012 (Amounts expressed in thousands)

Department of Agriculture	
School Nutrition	$ 2,664
Department of Education	
Marie Katzenbach School for the Deaf	1,850
Non-Public School Aid	41,973
Statewide Assessment Program (Grades 4, 8, 11)	8,848
School Construction and Renovations	38,915
Total Department of Education	91,586
Higher Educational Services	
Senior Public Institutions - Operating Aid	340,048
Tuition Aid Grants	142,844
Higher Education Capital Improvement Plan - Debt Service	9,770
Aid to County Colleges for Operational Costs	56,230
Coordinated Garden State Scholarship Program	1,562
Student Tuition Assistance Reward Scholarships (NJSTARS)	4,720
Opportunity Program Grants	12,111
Supplementary Education Program Grants	6,076
Veterinary Medicine Education	38
Total Higher Educational Services	573,399
Department of Human Services	
Operation of Centers for the Developmentally Disabled	78,918
Operation of State Psychiatric Hospitals	165,413
Total Department of Human Services	244,331
Department of Military and Veterans' Affairs	
Operation of Homes for Disabled Soldiers	38,102
Total Revenue Realized - GAAP Basis	$ 950,082

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

Andrew P. Sidamon-Eristoff
State Treasurer

Responsible Play

The Lottery is committed to ensuring that players enjoy its games responsibly. The Lottery partners with the Council on Compulsive Gambling of New Jersey (CCGNJ) in its continuing efforts to promote public awareness of the responsible play message. The Lottery maintains a position on the Council's Board of Directors to remain actively engaged in the mission. They hold joint press conferences that assist in building public awareness of essential issues including the prohibition of underage gambling.

On August 1, 2011 the Lottery held a press conference at its Headquarters to kick off the annual "Not 18 Yet? No Bet" awareness campaign. The message reinforces the law that prohibits all forms of underage gambling, including the sale of lottery tickets to minors. The campaign is held each year to coincide with the American Gaming Association's Responsible Gaming Education Week. Additionally, the Lottery and the CCGNJ joined in an annual campaign to discourage the gifting of lottery tickets to minors.

The Lottery promotes the responsible play message on a perpetual basis. Directed toward those who may be experiencing a gambling problem or who may know someone who is, the Lottery includes the Council's toll free help line phone number on all of its instant and online game tickets. Further reinforcing the Council's message, all Lottery advertising including television, radio, bill board signage and online, includes the 1-800-GAMBLER hotline number. Using these delivery methods, the message is communicated to millions of players each year.

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

1-800-GAMBLER®

24 hours a day…every day!

VIP Club

The Lottery's VIP Club is one of the largest online lottery members clubs in the country with

More Than

226,755

Members

VIP Club

The Lottery's VIP Club is one of the largest online lottery members clubs in the country. It has more than 226,755 members, with 42,841 new registrations in FY 2012 alone. The club is a free membership program that offers various benefits including the opportunity to participate in special drawings such as the newly introduced 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 along with receiving daily drawing results emailed to them, and more.

The Lottery's VIP Club is also home to the Lottery Bonus Zone Second Chance Drawing games, where even non-winning tickets can win a diverse array of prizes. Second chance drawings on popular branded games like Minute to Win It and Cruise for Cash offered players the opportunity to win unique prizes and trips, providing continued interest and excitement in playing the Lottery instant game line of products.

Million Dollar Replay

The Million Dollar Replay program provides lottery players with the opportunity to enter nonwinning instant game tickets into a free, second chance drawing. The program began in fiscal year 2011 with the Grand Prize Drawing held in fiscal year 2012 on Jan. 24. Program awareness and excitement spread quickly among instant game players. The number of entries received for the first quarterly drawing of the second year program exceeded the total number of entries during the entire first year's program. The first quarterly drawing held on April 9, 2012 received 2,178,080 total entries compared to a total of 1,317,281 entries for the initial full year program.

Participants can enter up to $10 worth of nonwinning, eligible instant scratch off tickets for a chance to become a semifinalist in a Grand Prize Drawing to win one of fifteen grand prizes ranging from $10,000 up to $1 million or a $250 consolation prize. Four semifinalist drawings are held to generate the list of grand prize drawing finalists. Each quarterly drawing is random and generates 100 semi-finalists who then go on to compete in the Grand Prize Drawing.

NJLottery.net

Powerball

75¢

Gets Bigger, Better and Offers More

New Jersey Lottery Annual Report 2012 VOL. 41 NO. 2

Starting Jackpots Double to $40 Million with Better Overall Odds for More Winners beginning January 15, 2012

The Lottery launched the supercharged Powerball game featuring a doubled starting jackpot of $40 million, better odds of winning any prize and more chances to win a prize of at least $1 million, beginning on January 15, 2012. The ticket price changed from $1 to $2 to support the increased jackpot. The Power Play multiplier, which provides players with the chance to win $2 million cash for the match 5 prize, remained available for an additional $1. The change was rewarding for New Jersey's top tier winners during the second half of the fiscal year producing five new millionaires.

The enriched Powerball game had a number of other changes and enhancements. Players were still able to choose their first five numbers from a pool of 59 but the group of numbers in the Powerball pool shrank to 35 from 39, producing better overall odds of winning a prize in the game. The odds of winning a prize improved to 1 in 31.8 in the revamped game from 1 in 35. The Powerball jackpots in the revamped game start at $40 million which is double the prior starting jackpot of $20 million.

The new Powerball game continued to offer players nine ways to win prizes, with its second prize moving up to $1 million in cash from the prior $200,000 and increased the lowest prize level (for those who match just the Powerball number) to $4 from $3. New Jersey Powerball players profited from the update and claimed more than $87 million dollars in Fiscal Year 2012.

The New Jersey Lottery began offering the original Powerball online game on January 31, 2010. The game's popularity is evidenced by its ticket sales figures. In Fiscal Year 2012, Powerball sales were nearly $184 million up from nearly $133 million in Fiscal Year 2011. The State contribution from Powerball game sales were $86 million up from $58 million in Fiscal Year 2011.

Pick-3 is one of Lottery's longest running games and one of its most popular. Since its inception in 1977 the game has maintained its position as a top seller and ranks first in ticket sales amongst all online games played in New Jersey, including its proprietary and multi-state games. The twice-daily drawn game has generated 15.64 percent of all ticket sales for the year.

Always a favorite, the game receives a boost of excitement and burst of sales when the greatly anticipated *"Green Ball Double Draw"* promotion hits the calendar, this year running from March 5 through April 1. During the promotion, sales spiked more than 14 percent over the prior month and continued to enjoy a halo effect for the subsequent portion of the year.

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 from a separate game machine is conducted. 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. The New Jersey Lottery guarantees that the green ball will be drawn at least four times during the four week promotion.

In total, the Pick-3 game generated more than $431 million for the year in sales of which more than half, $218.7 million, were returned to players in cash prizes. Nearly 2.3 million players called themselves Pick-3 winners in FY 12 but many more people throughout New Jersey benefited from the game. Pick-3 is estimated to have contributed 19 percent of the Lottery's overall contribution to the Treasury's General Fund for the year.

Pick-4 is a long-time favorite of lottery players and is the second highest revenue producer in the Lottery's online lineup. Sales topped $261 million for the year contributing 9.49 percent to Lottery's total sales. Pick-4, which is drawn twice daily, provides customers with a low cost wager that is big on excitement. Each $.50 wager is available to be purchased with the Instant Match feature that allows customers the added opportunity to win $500 at the point of sale for an additional dollar. The Instant Match feature is available for Pick-3 and Jersey Cash 5 also.

For Pick-4 players, October is dominated by the color red which is when the yearly *Red Ball* promotion is played. The Red Ball promotion is organized similarly to the Pick-3 *Green Ball* promotion except when the Red Ball is selected during the separate machine draw all winners of the Pick-4 prizes have their prizes doubled automatically. This year the promotion ran from October 3 through October 30 and the player excitement was reflected in a sales spike of over 10 percent in October over the prior month.

The staple Pick-4 game contributed its estimated yearly contribution to the State of nearly $112 million. While more than 544,000 lucky Pick-4 winners took home more than $132 million in cash prizes. The excitement for the game remains historically consistent.

The popular Jersey Cash 5 game offers the public daily opportunities to play and win. Introduced in September 1992, the game remains a favorite among Lottery players with base ticket sales topping $138 million in the fiscal year. Instant Match is a game enhancement 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 $4.1 million for combined total sales of more than $142 million. Overall, Jersey Cash 5 sales contributed more than 5 percent towards total lottery sales.

The excitement that surrounds the game may be influenced by the large number of winners it produces. In FY12 there were 190 top tier prize winners, nearly 16 per month, claiming an average jackpot of more than $192,000. The top jackpot for the year reached more than $1.1 million in October 2011. In addition to the top prize winners, nearly 1.3 million players claimed lower tier prizes ranging from approximately $9 to $300. In total, $71 million in prizes were 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 which was nearly $63 million for the year.

Give Your Dreams a Chance®

52 Weeks in a Year – 52 New Millionaires in New Jersey in FY 2012!

The thirty-two year old Pick-6 Lotto game created more than 1.5 million winners this year. With prizes that ranged from $85 to $21.5 million, the Pick-6 Lotto continued to provide excitement to the Lottery lineup of online games. This year game sales topped $84 million resulting in State contributions of more than $36 million, an increase from the prior year's $30.4 million contribution.

With the prevalence of Lottery game sales being influenced by jackpot size, Pick-6 Lotto saw its typical monthly average sales more than double in the months of April, May and June of 2012 when the jackpot kept rolling from the Dec. 19, 2011 draw until it ended on June 25, 2012 with a single winner of the $21.5 million prize. This was the fifth largest Pick-6 jackpot in Lottery history with the largest being $48.9 million hit on February 6, 2001. The State contribution from this exciting roll amounted to more than $20.5 million. Retailers profited as well and received commissions of more than $4.3 million from the game.

New Jersey's instant game product line continues to be the most popular and revenue producing game genre with lottery players. Instant game sales represented more than 51 percent of ticket sales in FY 2012. The New Jersey Lottery offers dozens of instant games, ranging in price from $1 to $10 with prizes ranging up to $1 million or more.

The Crossword brand of games, offering tickets ranging in price from $2 to $5, is a player favorite. New games are consistently being released under this brand and in FY 2012 the Crossword brand of games collectively produced revenues of $318.7 million, up from $279.8 million. Overall, the Lottery sold over $1.4 billion in instant tickets generating a $365 million contribution for State education, programs and institutions. This represents 38.45 percent of the State contribution. Additionally, a record $946 million was paid out in cash and prizes to our instant ticket winners.

Mega Millions attained a history-making jackpot of $656 million dollars in a run-up that began on Jan. 27 and rolled 19 times before being won by ticket holders from Kansas, Illinois and Maryland on March 30. Executive Director Hedinger spurred the national dialogue and fueled the public frenzy with appearances on Fox Business News anchored by Liz Claman and ABC World News Tonight with Diane Sawyer in addition to blanketing the print, radio and online news media with the Lottery message.

The country's largest-ever jackpot provided a windfall for New Jersey Lottery players and State residents alike even though the jackpot was not won in the state. In all, $96.7 million in tickets were sold in New Jersey. These sales produced more than 1.93 million winning New Jersey Lottery tickets bringing their holders a record $17.9 million in prizes during the run. In addition, retailers earned commissions of $4.83 million while the State contribution achieved was $40.63 million.

The Mega Millions games generated 8.63 percent of overall ticket sales for the lottery. For the year, there were more than $227 million of Mega Millions game tickets sold providing a year over year boost of 3.3 percent. The game contributed a total of $105 million towards the $950 million contribution to the state for the year.

During the second half of FY 2012, on January 15, a new prize structure for the popular Powerball game was launched in 44 jurisdictions. The new game featured a doubled starting jackpot of $40 million, better odds of winning any prize and more chances to win a prize of at least $1 million. Along with the game structure change, the ticket price increased to $2 from $1 per play. The Power Play multiplier feature remained available for an additional $1. The Power Play multiplier provides players with the chance to win a $2 million cash prize for five white ball matches.

Excitement for the game was additionally heightened when a New Jersey Powerball player won a $70 million jackpot on March 21, 2012. The win was culminated with a press conference at Lottery Headquarters that generated extended media coverage for the Lottery. Prior to this win, the last time a New Jersey player won the Powerball jackpot was on March 13, 2010.

The game structure change proved successful. The highest jackpot reached during the fiscal year was $336 million on February 11, 2012. As jackpots increased so did ticket sales; fiscal year sales totaled more than $183 million. These sales reflect an increase of more than 38 percent from the prior year which was $133 million. The increased sales provided contributions to the State of more than $86 million. In total, nearly 3.7 million players won prizes during the year, five of whom won $1 million after the game structure change, 15 won $200,000, and 97 won $10,000. The new Powerball game represents 6.66 percent of Lottery generated ticket sales for the year.

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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 basic financial statements of the business-type activities of the New Jersey Division of State Lottery (the "Division of State Lottery") as of and for the years ended June 30, 2012 and 2011, which collectively comprise the Division of State Lottery's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Division of State Lottery's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the New Jersey Division of State Lottery at June 30, 2012 and 2011, 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 reports dated October 19, 2012 and October 18, 2011, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 16-19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary information 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 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, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

This report is intended solely for the information and use of the State of New Jersey, the Commissioners, the audit committee, management 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

October 19, 2012

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, 2012 and 2011. 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.SA.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 (11).

As of June 30, 2012, the Division of State Lottery licenses over 6,400 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 sates 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 game 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, 2012 and 2011, consisted of total assets of $603 million and $640 million, respectively, and total liabilities of $591 million and $629 million, respectively. A substantial portion of the asset and liability amounts 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, 2012 and 2011, were $400 million and $446 million, respectively. Net assets increased from $11 million in fiscal year 2011 to $12 million in fiscal year 2012.

FINANCIAL STATEMENTS

The Division of State Lottery's financial statements include statements of net assets as of June 30, 2012 and 2011, statements of revenues, expenses and changes in net assets for the years ended June 30, 2012 and 2011, and statements of cash flows for the years ended June 30, 2012 and 2011. 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,	
	2012	2011
Current Assets	$ 297	$ 304
Deposit Fund Contracts	306	336
Total Assets	603	640
Current Liabilities	284	293
Non-Current Liabilities	307	336
Total Liabilities	591	629
Restricted Net Assets	5	7
Unrestricted Net Assets	7	4
Total Net Assets	$ 12	$ 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 $175 million and $152 million at June 30, 2012 and 2011, respectively. The Division of State Lottery also sold Prudential stock in fiscal year 2012 for $2.3 million, book value at June 30, 2011, was $3.2 million.

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 $400 million and $446 million as of June 30, 2012 and 2011, 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 $60 million and $40 million at June 30, 2012 and 2011, respectively. The annuities due beyond fiscal year 2013 total $306 million and represents the non-current assets reported on the Division of State Lottery's statements of net assets.

Current liabilities consist of unpaid prize awards, accounts payable and outstanding contributions due to the State of New Jersey General Fund. The total unpaid prizes due and payable totaled $66 million and $69 million as of June 30, 2012 and 2011, respectively. Also, $94 million was due to annuity winners as of June 30, 2012.

Non-current liabilities represent annuity prize awards due beyond 2013 and also include the total due for unused vacation and sick leave.

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

	June 30,	
	2012	2011
Restricted (Unclaimed Prize Reserves)	$ 5	$ 7
Unrestricted	7	4
Total Net Assets	$ 12	$ 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,	
	2012	**2011**
Operating revenues		
Ticket sales	$ 2,759	$ 2,637
Forfeited prizes	38	38
Miscellaneous income	1	2
Total operating revenue	**2,798**	**2,677**
Operating expenses		
Prize expenses	1,618	1,544
Bad debt expense	-	1
Administration expense	36	22
Retailer commissions	154	147
Vendor fees	37	33
Networking fees	1	(1)
Drawing broadcast fees	-	1
Total operating expenses	**1,846**	**1,747**
Operating income	952	930
Investment loss	(1)	-
Income before transfers out	951	930
Operating transfers - state contributions	950	930
Increase/(decrease) in net assets	$ 1	$ -

The Division of State Lottery awarded over $1.617 billion in prize awards in fiscal year 2012 and over $1.543 billion in fiscal year 2011. Almost 112 million winning tickets were validated and paid in fiscal year 2012 and over 110 million were validated and paid in fiscal year 2011.

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 $37 million in fiscal year 2012 and $32 million in fiscal year 2011, Drawing broadcast fees have been reduced over 97% due to live internet streaming of mid-day and evening drawings on Lottery website, Livestream website and Facebook.

The Division of State Lottery's administrative expenses for the fiscal years 2012 and 2011 totaled $37 million and $22 million, respectively. These administrative expenses include salaries, advertising, auditing services, rent, security, data processing services, office supplies and attorney general fees.

The Division of State Lottery is required by 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 $950 million, 34% of gross sales, in fiscal year 2012 and $930 million, 35% of gross sales, in fiscal year 2011.

Statements of Cash Flows

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

	Year Ended June 30,	
	2012	**2011**
Cash flows provided by operating activities	$ 978	$ 921
Cash flows used in non-capital financing activities	(953)	(923)
Cash flows (used in) provided by investing activities	(23)	2
Net increase in cash	$ 2	$ -

SUMMARY AND OUTLOOK

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

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

- Pick 3 "Green Ball" Double Draw
- Pick 4 "Red Ball' Double Up
- Various Instant Games, including new feature game $100 Million Dollar Spectacular
- Various promotions of VIP Club to increase membership
- Started Million Dollar Replay second chance program for non-winning instant tickets, first drawing held June 2011
- Social media presence on Facebook, Twitter and YouTube
- First U.S. Lottery to live stream mid-day and evening drawings on lottery website, Livestream website and Facebook.

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.

CONTACTING THE DIVISION’S FINANCIAL MANAGEMENT

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

STATEMENTS OF NET ASSETS

	June 30, 2012	June 30, 2011
ASSETS		
Current Assets		
Cash	$ 2,650,488	$ 601,305
Accounts receivable, net of allowance for doubtful accounts of $2,527,000 and $2,516,000 in 2012 and 2011, respectively	11,526,442	28,096,451
Deferred expenses	13,912,288	10,007,940
Investments		
Deposit fund contracts	94,163,004	110,302,504
Publicly traded stock	-	3,203,283
State of New Jersey Cash Management Fund	175,019,302	152,215,577
Total current assets	297,271,524	304,427,060
Non-Current Assets		
Investments - deposit fund contracts	305,775,771	335,430,609
Total non-current assets	305,775,771	335,430,609
Total assets	$ 603,047,295	$ 639,857,669
LIABILITIES		
Current Liabilities	$ 27,132,172	$ 13,731,178
Accounts payable and accrued expenses	65,771,237	68,505,050
Obligation for unpaid prize awards	94,163,004	110,302,504
Installment prize awards		
Due to State of New Jersey - education and state institutions	97,082,268	100,000,111
Total current liabilities	284,148,681	292,538,843
Non-Current Liabilities		
Compensated absences	1,039,552	1,024,519
Installment prize awards	305,775,771	335,430,609
Total non-current liabilities	306,815,323	336,455,128
Total liabilities	590,964,004	628,993,971
NET ASSETS		
Restricted for prize awards or contributions for aid to education and state institutions	5,209,429	6,706,490
Unrestricted	6,873,862	4,157,208
Total net assets	$ 12,083,291	$ 10,863,698

See accompanying notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Year ended June 30, 2012	Year ended June 30, 2011
Operating revenues		
Ticket Sales		
Pick 3	$ 431,483,145	$ 435,314,038
Pick 4	261,758,786	258,279,303
Jersey Cash 5	142,219,274	146,364,005
Pick 6 Lotto	84,161,564	68,530,737
Mega Millions	238,194,873	230,633,522
Powerball	183,892,771	132,782,891
Instant games	1,417,664,313	1,364,543,070
Sales discounts	(474,941)	-
Total ticket sales	2,758,899,785	2,636,447,566
Other revenues		
Forfeited prizes	37,781,380	38,453,261
Miscellaneous	957,690	1,981,067
Total operating revenues	2,797,638,855	2,676,881,894
Operating expenses		
Prize expenses	1,617,771,751	1,543,672,565
Amortization expense	59,577	51,660
Bad debt expense	-	650,000
Administrative expenses	36,595,216	22,322,459
Retailer commissions	153,657,527	146,973,605
Online vendor fees	20,273,146	17,901,509
Instant vendor fees	16,739,981	14,793,052
Multi-state fees	33,773	31,219
Office of information technology fees	494,254	(855,684)
Drawing broadcast fees	30,702	1,074,418
Total operating expenses	1,845,655,927	1,746,614,803
Operating income	951,982,928	930,267,091
Non-operating revenue (expenses)		
Interest	204,726	365,309
Loss on sale of publicly traded stock	(885,793)	-
Income before transfers out	951,301,861	930,632,400
Transfers out - contributions for state aid to education and state institutions	950,082,268	930,000,111
Change in net assets	1,219,593	632,289
Net assets, beginning of year	10,863,698	10,231,409
Net assets, end of year	$ 12,083,291	$ 10,863,698

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

	Year ended June 30,	
	2012	2011
Cash Flows from Operating Activities		
Sales to customers	$ 1,385,166,786	$ 1,296,367,920
Payments for prize awards	(345,773,535)	(353,411,947)
Payments for vendor commissions and fees	(38,716,380)	(35,599,402)
Payments to suppliers	(30,471,541)	(18,934,459)
Other payments	(42,480)	(16,579)
Cash flows from annuity operations		
Annuity receipts	93,826,004	110,381,004
Purchases of annuities	(19,141,639)	(2,463,693)
Payments of annuity prizes	(67,198,921)	(75,043,156)
Net cash provided by operating activities	977,648,294	921,279,688
Cash Flows used in Non-Capital Financing Activities		
Contributions for aid to education and state institutions	(953,000,111)	(923,009,031)
Cash Flows from Investment Activities		
Cash Management Fund proceeds	1,215,541,000	1,118,113,000
Cash Management Fund purchases	(1,238,140,000)	(1,116,400,000)
Net cash (used in) provided by investing activities	(22,599,000)	1,713,000
Net increase (decrease) in cash	2,049,183	(16,343)
Cash, beginning of year	601,305	617,648
Cash, end of year	$ 2,650,488	$601,305
Reconciliation of operating income to net cash provided by operating activities		
Operating Income	$ 951,982,928	$ 930,267,091
Changes in assets and liabilities		
Accounts receivable	16,570,009	(2,620,529)
Investments - deposit fund contracts and publicly traded stock	48,111,827	77,906,831
Other assets	(3,904,348)	5,391,824
Accounts payable and accrued expenses	13,400,996	(6,559,669)
Obligation for unpaid prize awards	(48,528,151)	(83,140,935)
Compensated absences	15,033	35,075
Net cash provided by operating activities	$ 977,648,294	$ 921,279,688

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Basis of Accounting

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

In its accounting and financial reporting, the Division follows the pronouncements of the Governmental Accounting Standards Board ("GASB") and other entities that promulgate accounting principles. Per GASB Statement 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, priority is established as to which source of accounting principles to utilize in determining proper accounting treatment. The hierarchy is as follows: GASB Statements and Interpretations; GASB Technical Bulletins; American Institute of Certified Public Accountants ("AICPA") Industry Audit and Accounting Guides and AICPA Statements of Position, if applicable, and cleared by GASB; AICPA Practice Bulletins, if applicable, and cleared by GASB; Implementation Guides published by the GASB; AICPA pronouncements that are not 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.

Accounts Receivable

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

Installment Prize Awards and Prize Expenses
Installment prize awards are recorded based upon the present value of an annuity at terms to yield a series of future payments needed to meet the obligations of the Division of State Lottery for prize disbursements. The Division of State Lottery purchases annuity contracts from insurance companies and U.S. government securities to fund its liability for installment prize awards. An annuity contract represents an obligation by an insurance company to provide a fixed series of payments over a specified period. Annuity contracts are subject to credit risk. The Division of State Lottery seeks to control its exposure to such credit risk by purchasing annuity contracts only from insurance companies that meet certain minimum standards. Such standards include having minimum acceptable ratings from at least two of three private rating companies. The rating companies and the minimal acceptable ratings are the following; Standard and Poor's financial strength rating of ”AA,” AM. Best financial strength rating of “ A,” and Moody's financial strength rating of "Aa2.” However, due to the long-term nature of these contracts, the credit quality of the issuer is subject to change. Amounts recorded as prize expense reflect the cost of annuity contracts and U.S. government securities necessary to satisfy stated prize awards plus any single payment awards. These annuities are presented on the 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, 2012 and 2011, leasehold improvements included in deferred expenses were $594,968 and $357,474, respectively. For the years ended June 30, 2012 and 2011, amortization expense was $59,577 and $51,660, respectively.

Net Assets

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

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

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

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

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, 2012 and 2011, forfeited prizes were $37,781,380 and $38,453,261, 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, 2012 and 2011, aggregated $950,082,268 and $930,000,111, respectively, of which $97,082,268 and $100,000,111 was due to the State Treasury at June 30, 2012 and 2011, respectively.

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

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

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

Advertising
The Division of State Lottery uses advertising to promote the sale of lottery tickets. The costs of advertising are expensed as incurred. Advertising expense included in administrative expense amounted to $23,534,711 and $9,957,379 for the years ended June 30, 2012 and 2011, 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, 2012 and 2011. The Division's deposits with Wells Fargo are insured by the Federal Deposit Insurance Corporation up to $250,000.

	June 30,	
	2012	2011
Wells Fargo	$ 2,650,488	$ 601,305
New Jersey Cash Management Fund	175,019,302	152,215,577
Total	$ 177,669,790	$ 152,816,882

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 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.

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.

Investments

The fair value of investment securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument. The Division of State Lottery sold Prudential Financial Common Stock during fiscal year 2012 and recognized a loss on sale of securities in the amount of $885,793 for the year ended June 30, 2012.

Fair Valve on a Recurring Basis

The table below presents the balances of investments measured at fair value on the statements of net assets as of June 30, 2011:

	June 30, 2011			
	Total	Level 1	Level 2	Level 3
Available for sale securities	$3,203,283	$3,203,283	$ -	$ -
Total	$3,203,283	$3,203,283	$ -	$ -

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

U.S. government securities are carried at fair value. At June 30, 2012 and 2011, the Division of State Lottery held U.S. government securities totaling $58,848,974 and $40,246,366, respectively, which are included in investments - deposit fund contracts.

Annuity contracts are carried at their current contract values, which are based upon their original purchase prices adjusted for credited interest and amounts already received. Annuity contracts are subject to credit risk. The Division of State Lottery seeks to control its exposure to such credit risk by purchasing annuity contracts only from insurance companies that meet certain minimum standards. Such standards include having minimum acceptable ratings from at least two of three private rating companies. The rating companies and the minimal acceptable ratings are the following; Standard and Poor’s financial strength rating of "AA," AM. Best financial strength rating of "A," and Moody's financial strength rating of "Aa2." However, due to the long-term nature of these contracts, the credit quality of the issuer is subject to change. As of June 30, 2012, eight companies with annuity contracts totaling approximately $192,623,180 had ratings below those minimally acceptable for new purchases. At June 30, 2012 and 2011, the Division of State Lottery held insurance company annuity contracts totaling $341,089,801 and $405,486,747, 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 assets at June 30, 2012 and 2011.

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.

F. COMMITMENTS

Contractual Arrangements

The Division of State Lottery maintains a gaming network of over 6,400 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.

Operating Leases

The Division of State Lottery leases certain office facilities under non-cancelable operating lease agreements expiring through fiscal year 2023.

Future minimum lease payments are as follows:

Year Ending June 30,	Amount
2013	$ 771,934
2014	784,475
2015	793,434
2016	793,434
2017	767,619
2018 - 2022	3,254,383
2023 - 2024	928,979
	$ 8,094,258

Rent expense for office facilities for the years ended June 30, 2012 and 2011, was $1,058,125 and $1,134,182, respectively.

F. SUBSEQUENT EVENTS

Management has evaluated subsequent events that occurred after the statements of net assets date but before October 19, 2012, the date the financial statements were available to be issued. No issues were noted that needed disclosure.

G. ROUNDING

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

Carole Hedinger, CPA
Executive Director

Frank V. Ragazzo
Chairman

Chris Christie
Governor

Kim Guadagno
Lt. Governor

Andrew P. Sidamon-Eristoff
State Treasurer

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