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**2011 ANNUAL REPORT**

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The New Jersey Lottery Celebrating

40


The New Jersey Lottery celebrated the 40th Anniversary of the first game draw and the legacy it represents in Fiscal Year 2011. Over the forty years since that first ticket was sold to Governor William T. Cahill on Dec. 16, 1970, the Lottery’s innovative approach to its gaming system processes, retailer infrastructure and creative marketing has effected substantive change in the Lottery both as a business and a revenue producer for the state. These innovations have helped the Lottery evolve into the fourth largest revenue generator for the State of New Jersey and one of the most cost-efficient lotteries in the world.

The Lottery contributed $930 million to state-run programs and institutions in FY 2011, bringing the historical total to more than $20 billion. It produced record-breaking sales while introducing remarkable technological advancements including a complete conversion of its lottery gaming system, customer facing technological advancements and creative game products and marketing initiatives, laying the groundwork for a bright and dynamic future.

The Lottery contributed $930 million to state-run programs and institutions in FY 2011, bringing the historical total to more than $20 billion.

Record-breaking Sales, Reduced Operating Costs, Increased Statewide Contributions

The Lottery’s record-breaking sales of over $2.6 billion in FY 2011 represents an increase of $31.5 million from FY 2010. This marked the fourth consecutive year that Lottery sales have crossed the $2.5 billion mark. The accomplishment was even more notable because it came at a time when the country was still struggling to recover from a severe economic recession. Strong, focused leadership, creative game product development, and an efficient, lean operating organization all helped deliver these remarkable accomplishments.

The increased sales translated into increased contributions for state aid to education and state institutions. The Lottery contributed $930 million to organizations including: county college capital improvement initiatives; school nutrition efforts; the Marie Katzenbach School for the Deaf; the operation of centers for the developmentally disabled, state psychiatric hospitals and homes for veterans; higher education tuition and grants; and aid to colleges and universities. All of these are vital programs that serve the needs of our state’s residents.

The Lottery contributed $930 million to state-run programs and institutions in FY 2011, bringing the historical total to more than $20 billion.

The New Jersey Lottery

Governor

Chris Christie

Kim Guadagno

Andrew R. Sidamon-Eristoff

State Treasurer

Lt. Governor


Nov. 1969 — Voters Approve Lottery

Dec. 16, 1970 — First Lottery Ticket Sold

Jan. 1977 — Pick-6 Lotto is Introduced

May 1980 — Pick-6 Lotto is Introduced

May 1981 — First Pick-6 Lotto Millionaire

June 1975 — First Instant Game Introduced

Nov. 1972 — The First 5 Digit Daily Game is Introduced

May 1975 — Pick-It, The Nation’s First Online Game is Introduced

Nov. 1970, the Lottery’s innovative approach to its gaming system processes, retailer infrastructure and creative marketing has effected substantive change in the Lottery both as a business and a revenue producer for the state.

1970, the Lottery’s innovative approach to its gaming system processes, retailer infrastructure and creative marketing has effected substantive change in the Lottery both as a business and a revenue producer for the state.
Dear Friends,

The New Jersey Lottery provides the residents of our State the multi-pronged benefit of exciting entertainment along with funding for essential programs including: school nutrition, academic tuition and grants, veterans services, operating centers for the developmentally disabled, State psychiatric hospitals and the Marie Katzenbach School for the Deaf. On behalf of the Lottery Commission, we are honored to serve this organization as Commissioners to help fulfill the needs and dreams of so many of our residents. Once again, the Lottery has broken its own record during Fiscal Year 2011 with its $930 million contribution to the New Jersey Treasury. That contribution is a remarkable execution and record-breaking sales within a repressed economic environment.

Frank Ragazzo
Chairman

We are grateful for the contributions of our partners, who help us provide even more funding for their service. To all our partners, the ultimate goal of the Lottery is delivering upon our promise of funding many essential educational services and meeting the needs of our veterans. I am incredibly proud to have been able to fulfill that promise in FY 2011 by providing $930 million to the State Treasury to fund those programs.

Our Executive Director
Carole Hedinger, CPA
Executive Director
Lottery as an Economic Stimulus

The public plays the Lottery to win jackpots. These range in size from $1 to life-changing millions and everything in between. This year the Lottery awarded over $1.543 billion in prizes, an increase of $211 million over FY 2010. Every prize paid out delivers a stimulus for the overall economy and inspires more customers to return for more entertainment opportunities and chances to win.

The Lottery also continues to provide significant business opportunities around the State. It affords small, mid-size and large businesses a revenue generation source and additional marketing opportunities that non-lottery retailers do not have. By generating record-breaking sales, the nearly 6,200 strong Lottery retailer network also received record-breaking profits. These Lottery partners received $147 million in revenue from earned lottery commissions during this challenging economy, up $2 million from the prior year.

Gaming System Advancements

Higher retailer productivity, improved retail space management and heightened player experience are just a few of the outcomes from the Lottery gaming system improvements in FY 2011. Remarkable technological upgrades were made in all retail locations. The new equipment included a customer-centric Ticket Checker, an upgraded Retailer Gaming Terminal, a Multi-Media customer facing Monitor, along with a Printer and Jackpot sign. Each upgrade enhanced productivity at the retail location and made playing the Lottery even easier for the customer.

The newly installed equipment is faster, more user-friendly and more versatile.

Customers can use the newly installed Ticket Checker with barcode reader to check their own tickets. This allows them to engage in the gaming process and provides a heightened sense of security by verifying their winning amounts. It’s small in size and mountable, allowing it to be placed anywhere within 50 feet of the Lottery terminal.

The new Altura Retailer Gaming Terminal has an easy-to-use, fully height adjustable, touch screen for all terminal operations. The top-mounted reader scans bet slips faster than ever and has a shelf that holds up to 30 at a time. These are essential tools on high-volume customer play days.

The 17-inch Color Multi-Media Monitor is easy for players to read, and instantly displays brand consistent promotional materials to support the current gaming offerings. Jackpot amounts for all games are regularly shown on the monitor, to inform customers of the exciting opportunities.

Printing the game tickets also became more efficient and secure by showing the customer their transaction information and providing current updates on jackpot games like Jersey Cash 5, Pick 6, Mega Millions, and Powerball. The quick, quiet thermal printer means clear, crisp printing every time and eliminates the cost and time associated with the old ribbon ink delivery system. The new printer is also compact, allowing the retailer to conveniently place it close at hand.

New, automatically updated jackpot signs were also a part of the technological upgrades for retailers. These eliminate the manual updates of the old flip signs and the human error associated with that task.

The gaming system advancements brought the New Jersey Lottery retailers into the 21st Century with tools, systems and processes that increase productivity, heighten customer experiences and streamline internal processes.

Technological Advancements

New Design for Lottery Website and Social Media

FY 2011 began a new era in technological advancements for the New Jersey Lottery. On June 30, 2011 the NJN television network, after 40 years of producing television broadcasts for New Jersey residents, went dark. Along with the station went the venue the Lottery had used to broadcast its live game draws. Faced with the loss of its television broadcast the Lottery executive management team determined that the optimal solution was to bring the draw production in-house to lottery headquarters and stream it live on the Internet for public viewing. Changes and upgrades needed to be made to all customer facing Lottery technology including the website, Facebook and YouTube Channel. The social media tools would become the Lottery’s new broadcast venue.

Creative and technology teams were formed to design and build an in-house studio within Lottery headquarters. The media team researched, sourced and purchased state-of-the-art camera and post-production gear to prepare for the transition. Extensive staff training occurred to ensure the daily draw would be handled efficiently. The planning and execution was challenging and time-sensitive with the fate of the Lottery draw in stake. The efforts were successful and the outcome during FY 2012 was that the New Jersey Lottery became the first Lottery in the nation to live-stream its game draws over the Internet.

Lottery fans can register for the VIP Club, Bonus Zone special programs and the Million Dollar Happy Thursday directly from the updated NJLottery.net website. Membership in the VIP Club provides increased opportunities to win cash prizes and special event experiences.

The newly redesigned Lottery website was launched in June 2011 offering lottery fans daily game draws and historical game information. The Lottery website provides continued promotions and advertising campaigns.

The New Jersey Lottery Facebook Page was launched in January 2011. The social media site enabled strangers with a common need, the NJ Lottery, to build a thriving community. The site allows the Lottery to interact with its customers, and conversely, it provides a platform where the customers can provide direct feedback to the Lottery.

New Jersey Lottery history can be researched, sourced and purchased state-of-the-art camera and post-production gear to prepare for the transition. Extensive staff training occurred to ensure the daily draw would be handled efficiently. The planning and execution was challenging and time-sensitive with the fate of the Lottery draw in stake. The efforts were successful and the outcome during FY 2012 was that the New Jersey Lottery became the first Lottery in the nation to live-stream its game draws over the Internet.
Where the Money Goes

Recognized as one of the most cost-efficient lotteries in the United States, the New Jersey Lottery spends less than one percent of its revenue to operate its business. As the State’s fourth-largest revenue producer, the Lottery grossed over $2.6 billion in sales for FY 2011 and contributed more than $930 million to the State, or nearly 35 percent of sales. The New Jersey Lottery contributions help fund education and institutions making everyone in the Garden State a winner.

Since its inception more than forty years ago, the Lottery has dedicated more than $20 billion to programs that benefit millions of New Jersey residents. Community Colleges, the Department of Human Services, the Department of Military and Veterans Affairs, the School Nutrition Program and the Marie Katzenbach School for the Deaf are just a few of the organizations and programs whose constituencies benefit from Lottery proceeds.

The Lottery also plays a key role in supporting small businesses throughout the State. Nearly 6,200 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 and other bonuses. In FY 2011, the Lottery returned nearly $147 million in commissions and bonuses to support chain stores, supermarkets, pharmacies, convenience stores and other establishments throughout the state.

The Lottery grossed over $2.6 billion in sales for FY 2011 and contributed more than $930 million to the State, or nearly 35 percent of sales.

Million Dollar Replay

The Million Dollar Replay, a second-chance bonus drawing program, was introduced on April 4. The Million Dollar Replay program provides lottery players with the opportunity to enter non-winning instant game tickets into a free second-chance drawing. Participants enter $10 worth of non-winning, eligible instant game scratch-off tickets for a chance to become a semi-finalist or a Grand Prize Drawing. Four semi-finalists are held to generate the list of grand prize drawing finalists. With each quarterly drawing, 100 finalist names and 25 alternate names are randomly selected to create a finalist list of 400 participants for the Grand Prize Drawing. The Grand Prize Drawing includes fifteen prizes ranging from $10,000 up to $1 million. Semi-finalists from all four quarterly drawings who do not win a top prize receive a $250 consolation prize.

Creating the Million Dollar Replay program was an exciting way to offer customers additional incentives to play instant games by providing them a second opportunity to win cash prizes.

Responsible Play

As part of its continuing efforts to increase public awareness and understanding of playing responsibly, the Lottery distributes brochures to the public outlining responsible play guidelines when playing the lottery and other gaming activities. In FY 2011, the brochure was distributed through nearly 6,200 lottery retailers throughout the state. It encourages the public to call the 1-800-GAMBLER hotline if they think they or someone they know may have a gambling problem. The staff at the hotline can direct them to assistance. Further reinforcing its commitment to combating underage gambling, the Lottery partners with the Council on Compulsive Gambling of New Jersey to take the message.

In an ongoing campaign “Not 18 Yet? No Bet,” the Council and the Lottery work toward increasing public awareness of the age restriction on lottery play in New Jersey. The campaign conveys to retailers and citizens the importance of not selling or giving lottery tickets to minors.

The 1-800-GAMBLER hotline number is featured on all of the Lottery’s product line and as a tagline in its advertising.

VIP Club

The Lottery’s VIP Club is one of the largest online lottery membership clubs in the country. It has more than 189,000 active members, with 18,237 registered in FY 2011 alone. The club is a free-of-charge membership program that offers participants various benefits including the opportunity to partake 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.

September 16, 2005
– Largest Single Ticket Lottery History
$250 million

May 15, 2009
– Lottery mascot Television; Monday Drawings On NJN; Puts Video Of Drawings Online

Oct. 3, 2010
– Gaming System Conversion

Mar. 5, 2010
– New Jersey Lottery Begins Selling Powerball Tickets

Jan. 31, 2010
– New Jersey Lottery Begins Selling Powerball Tickets

Mar. 13, 2010
– Morris County resident wins New Jersey’s First Powerball Jackpot; Winner $211 million

Jan. 18, 2011
– Mega Millions Jackpot introduced

March 6, 2007
– Cape May County Couple Wins Record Selling Mega Millions Jackpot $300 million

Jan. 4, 2011
– Mega Millions Jackpot introduced

June 30, 2011
– NJN television station ceases to air

June 30, 2011
– New Jersey Lottery contributes over $20 billion to fund State education, institutions and programs during its 40 years

Aug. 19, 2010
– Gaming System Conversion

April 6, 2011
– Million Dollar Replay program begins

Jan. 11, 2011
– 40th Anniversary of the first game draw

June 30, 2011
– Mega Millions Jackpot introduced

Sept. 16, 2005
– Largest Single Ticket Lottery History
$250 million

New Jersey Lottery | Annual Report 2011
NEW JERSEY LOTTERY GAMES

The New Jersey Lottery kicked off the Powerball® game on Jan. 31, 2010 and sales hit their stride in FY 2011. The multi-state game's popularity is evidenced by FY 2011 ticket sales of nearly $133 million. The Powerplay option accounted for more than $15 million of that figure. Nearly 13 percent of lottery players chose the Powerplay option on their ticket purchase to boost their winnings. New Jersey Lottery players benefited from the game by winning more than $67 million in cash prize awards, representing more than 5 percent of total sales revenue in FY 2011.

Powerball® provides players with the added excitement of a multi-state, big jackpot opportunity. Powerball® jackpots start at a minimum of $20 million, and give players nine ways to win, with overall odds of 1 in 35 at a cost of $1 per bet. For an extra $1 per play, the Megaplier is a special feature that multiplies all prizes, other than the jackpot, by a terminal generated, randomly selected number of either two, three, or four. Players who buy the Megaplier option and match five numbers without matching the MegaBall automatically win $1 million regardless of the Megaplier number. All other non-jackpot prizes are multiplied by the Megaplier number drawn. New Jersey Mega Millions sales for Fiscal Year 2011 were $230.6 million representing 7.5 percent of overall ticket sales. New Jersey Lottery players received $114.2 million in prizes from the game. The New Jersey economy was bolstered by Lottery retailers reaping $11.78 million in commissions from the Mega Millions game.

New Jersey residents also benefited from the game with contributions to the State at $107.7 million. Overall, a win, win, win situation in Fiscal Year 2011.

Give Your Dreams a Chance®
We have audited the accompanying financial statements of the New Jersey Division of State Lottery (the “Division of State Lottery”) as of and for the years ended June 30, 2011 and 2010. These financial statements are the responsibility of the Division of State Lottery’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Division of State Lottery’s internal control over financial reporting. Accordingly, we express no such 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 opinions.

In our opinion, the 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, 2011 and 2010, 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 18, 2011 and October 20, 2010, on our consideration of Division of State Lottery’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

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

October 18, 2011
**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, 2011 and 2010. 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 1979 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. 5:9-5 (11)).

The Division of State Lottery licenses almost 4,200 agents 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. GTECH is also responsible to provide communications between the sales terminals and the GTECH data centers.
- Polland 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)
- Jersey Cash 5
- Pick 6
- Mega Millions
- Powerball

**FINANCIAL HIGHLIGHTS**

The Division of State Lottery's financial position at June 30, 2011 and 2010, consisted of total assets of $640 million and $722 million, respectively, and total liabilities of $629 million and $712 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, 2011 and 2010, were $464 million and $537 million, respectively. Net assets increased from $10 million in fiscal year 2010 to $11 million for fiscal year 2011.

**FINANCIAL STATEMENTS**

The Division of State Lottery's financial statements include state-ments of net assets as of June 30, 2011 and 2010, statements of revenues, expenses and changes in net assets for the years ended June 30, 2011 and 2010, and statements of cash flows for the years ended June 30, 2011 and 2010. The financial statements are prepared in accordance with the accounting principles established by the Government Accountability Standards Board.

The statements of net assets present the Division of State Lottery's financial position as of the last day of the fiscal year. The Division of State Lottery's assets, liabilities and net assets are summarized as follows (in millions):

<table>
<thead>
<tr>
<th>Description</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Assets</td>
<td>$304</td>
<td>$319</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$840</td>
<td>$777</td>
</tr>
<tr>
<td>Current Liabilities</td>
<td>$293</td>
<td>$308</td>
</tr>
<tr>
<td>Non-Current Liabilities</td>
<td>$346</td>
<td>$404</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>$639</td>
<td>$712</td>
</tr>
<tr>
<td>Restricted Net Assets</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>Unrestricted Net Assets</td>
<td>44</td>
<td>41</td>
</tr>
<tr>
<td>Total Net Assets</td>
<td>$840</td>
<td>$777</td>
</tr>
</tbody>
</table>

Current assets consist of cash and investment in the State of New Jersey Cash Management Fund (the "CMAF"), accounts receivable, current year annuity investments and prepaid expenses. The investment in the CMAF totaled $151 million and $154 million at June 30, 2011 and 2010, respectively. The Division of State Lottery also holds Prudential stock with a market value of $3 million at June 30, 2011.

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 $446 million and $537 million as of June 30, 2011 and 2010, 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 $40 million and $41 million at June 30, 2011 and 2010, respectively. The annuity prizes due beyond fiscal year 2012 total $315 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 $69 million and $71 million as of June 30, 2011 and 2010, respectively. Also, $110 million was due to annuity winners as of June 30, 2011.

**Statements of Net Assets**

Non-current liabilities represent annuity prize awards due beyond 2012 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):

<table>
<thead>
<tr>
<th>Description</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restricted (Unclaimed Prize Reserves)</td>
<td>$4</td>
<td>$4</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>$11</td>
<td>$11</td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th>Description</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenues</td>
<td>$2,637</td>
<td>$2,605</td>
</tr>
<tr>
<td>Ticket sales</td>
<td>338</td>
<td>342</td>
</tr>
<tr>
<td>Vendor fees</td>
<td>154</td>
<td>1,512</td>
</tr>
<tr>
<td>Drawings broadcast fees</td>
<td>11</td>
<td>1</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>$1,747</td>
<td>$1,723</td>
</tr>
<tr>
<td>Prize expenses</td>
<td>1,544</td>
<td>1,512</td>
</tr>
<tr>
<td>Bad debt expense</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Administration expenses</td>
<td>22</td>
<td>18</td>
</tr>
<tr>
<td>Retailer commissions</td>
<td>147</td>
<td>145</td>
</tr>
<tr>
<td>Vendor fees</td>
<td>33</td>
<td>43</td>
</tr>
<tr>
<td>Networking fees</td>
<td>(1)</td>
<td>4</td>
</tr>
<tr>
<td>Drawing broadcast fees</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>1,747</td>
<td>1,723</td>
</tr>
<tr>
<td>Operating income</td>
<td>900</td>
<td>882</td>
</tr>
<tr>
<td>Investment income</td>
<td>900</td>
<td>882</td>
</tr>
<tr>
<td>Income before transfers</td>
<td>900</td>
<td>882</td>
</tr>
<tr>
<td>Operating transfers - state contributions</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Increase (decrease) in net assets</td>
<td>$0</td>
<td>$0</td>
</tr>
</tbody>
</table>

The Division of State Lottery awarded over $1.543 billion in prize awards in fiscal year 2011 and over $1.512 billion in fiscal year 2010. Almost $110 million winning tickets were validated and paid in fiscal 2011 and over $111 million were validated and paid in fiscal 2010. 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 to the Division of State Lottery's vendors and network fees was $322 million in fiscal year 2011 and $481 million fiscal year 2010. Drawing broadcast fees were approximately $1 million for both years ended June 30, 2011 and 2010, respectively.

The Division of State Lottery's administrative expenses for the fiscal years 2011 and 2010 totaled $22 million and $18 million, respectively. These administrative expenses include salaries, advertising, auditing services, rent, security, data processing services, office supplies and attorney general fees.

**FINANCIAL HIGHLIGHTS**

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 $930 million, 35% of total revenues, in fiscal year 2011 and $964 million, 30% of total revenues, in fiscal year 2010.

**Statements of Cash Flows**

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

<table>
<thead>
<tr>
<th>Description</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows provided by operating activities</td>
<td>$923</td>
<td>$930</td>
</tr>
<tr>
<td>Cash flows used in investing activities</td>
<td>$2</td>
<td>4</td>
</tr>
<tr>
<td>Net increase (decrease) in cash</td>
<td>$921</td>
<td>$926</td>
</tr>
</tbody>
</table>

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
- Implemented new game feature for Mega Millions - Megaplier, started January 2011
- The addition of Jersey Cash 5 Instant Match started April 2011
- 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
- Established social media presence on Facebook, Twitter and YouTube
- First U.S. Lottery to live stream mid-day and evening drawings on lottery 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.

**CONCLUDING THE DIVISION'S FINANCIAL MANAGEMENT**

This financial report is designed to provide citizens, investors and creditors 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.
# STATMENTS OF NET ASSETS

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>601,305</td>
<td>617,648</td>
</tr>
<tr>
<td>Accounts receivable, net of allowance for doubtful accounts</td>
<td>28,096,451</td>
<td>25,475,922</td>
</tr>
<tr>
<td>Deferred Expenses</td>
<td>10,007,940</td>
<td>15,399,765</td>
</tr>
<tr>
<td>Investments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposit Fund Contracts</td>
<td>110,302,504</td>
<td>124,019,004</td>
</tr>
<tr>
<td>Tradable Stock</td>
<td>3,201,283</td>
<td>-</td>
</tr>
<tr>
<td>State of New Jersey Cash Management Fund</td>
<td>152,215,577</td>
<td>153,563,268</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>304,427,060</td>
<td>319,075,607</td>
</tr>
<tr>
<td><strong>Non-Current Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments - deposit fund contracts</td>
<td>335,430,609</td>
<td>402,824,222</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td>335,430,609</td>
<td>402,824,222</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>639,857,669</td>
<td>721,899,829</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LIABILITIES</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>13,731,178</td>
<td>20,290,847</td>
</tr>
<tr>
<td>Obligation for unpaid prize awards</td>
<td>68,505,050</td>
<td>70,535,872</td>
</tr>
<tr>
<td>Installment prize awards</td>
<td>110,302,504</td>
<td>124,019,004</td>
</tr>
<tr>
<td>Due to State of New Jersey - education and state institutions</td>
<td>100,000,111</td>
<td>93,009,031</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>292,538,843</td>
<td>307,854,754</td>
</tr>
<tr>
<td><strong>Non-Current Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compensated absences</td>
<td>1,024,519</td>
<td>989,444</td>
</tr>
<tr>
<td>Installment prize awards</td>
<td>335,430,609</td>
<td>402,824,222</td>
</tr>
<tr>
<td><strong>Total non-current liabilities</strong></td>
<td>336,455,128</td>
<td>403,813,666</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>628,993,971</td>
<td>711,668,420</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>NET ASSETS</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restricted for prize awards or contributions for aid to education and state institutions</td>
<td>6,706,490</td>
<td>6,074,201</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>4,157,208</td>
<td>4,157,208</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td>10,863,698</td>
<td>10,231,409</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements
STATEMENTS OF CASH FLOWS

Year ended June 30,

<table>
<thead>
<tr>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales to customers</td>
<td>$1,296,367,920</td>
</tr>
<tr>
<td>Payments for prize awards</td>
<td>(353,411,947)</td>
</tr>
<tr>
<td>Payments for vendor commissions and fees</td>
<td>(35,599,402)</td>
</tr>
<tr>
<td>Payments to suppliers</td>
<td>(18,934,459)</td>
</tr>
<tr>
<td>Other payments</td>
<td>(16,579)</td>
</tr>
<tr>
<td>Cash flows from investment activities</td>
<td>1,713,000</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>921,279,688</td>
</tr>
<tr>
<td>Cash flows used in Non-Capital Financing Activities</td>
<td>(923,009,031)</td>
</tr>
<tr>
<td>Net cash provided by (used in) investing activities</td>
<td>7,131,000</td>
</tr>
<tr>
<td>Cash Flows from Investment Activities</td>
<td>1,118,110,000</td>
</tr>
<tr>
<td>Cash Management Fund proceeds</td>
<td>1,118,110,000</td>
</tr>
<tr>
<td>Cash Management Fund purchases</td>
<td>(1,116,400,000)</td>
</tr>
<tr>
<td>Reconciliation of operating income to net cash provided by operating activities</td>
<td>601,305</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
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 Powerball are recognized on the date of the drawing on the date.

• Instant games are recognized daily, based upon the settlement of instant game inventory packages by selling retailers. Sales adjustments are recorded based upon final reconciliations prepared after the termination of a lottery instant game.

Forfeited Prizes

The State Lottery Law requires that prizes not claimed within one year from the date of the closing of the game. Every $1 prize is forfeited. Effective November 21, 1991, the Commission authorized that 20% of forfeited prizes be to be maintained for prize awards and are available to augment future prize awards or the operations of the executive director, to augment the Divisions of State Lottery’s contribution for state aid for education and state institutions. The remaining 80% 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 periods forfeited. For the years ended June 30, 2011, and 2010, forfeited prizes were $138,451,261 and $42,123,199, 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, 2011 and 2010, aggregated $930,000,111 and $934,029,031, respectively, of which $100,000,111 and $93,009,031 was due to the State Treasury at June 30, 2011 and 2010, respectively.

For machine games, the Division of State Lottery has designated that a minimum of 45% of gross revenues to be allocated for prize awards. Prize expense is recorded when the game has been declared open by the responsible State Lottery or its agents in the Division’s name. For machine games, the Division of State Lottery’s contribution for state aid for 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 periods forfeited. For the years ended June 30, 2011, and 2010, forfeited prizes were $38,453,261 and $42,223,139, respectively.

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 $9,957,379 and $7,018,893 for the years ended June 30, 2011 and 2010, respectively.

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 investments at June 30, 2011 and 2010.

Level 1-

- July 2011 – 2010

- Value

- June 30, 2011

- $152,816,882

- $154,180,916

- Wachovia (Wells Fargo) $ 601,305 $ 617,648

- New Jersey Cash Management Fund $ 115,215,977 $ 131,561,268

Year Ended June 30, 2011 and 2010

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. As of June 30, 2011 and 2010, the Division held $152,816,882 and $154,180,916, respectively, in the New Jersey Cash Management Fund.

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 GAAP.

Level 1-

- July 2011 – 2010

- 301

- 2011

- $ 3,203,283

- $ 3,203,283

- Net Total

- $ 3,203,283

- $ 3,203,283

- Cash

- $ 3,203,283

- $ 3,203,283

- Total

- $ 3,203,283

- $ 3,203,283

FUTURE INSTALLMENT PRIZE AWARDS

The Division purchases annuity, or deposit fund, contracts from insurance companies and U.S. government securities to fund the liability for future installment prize awards. Generally, annuity contracts and winning for specific term, which are due in installments ranging from ten years to the lifetime of the recipient. The estimated fair value of annuity contracts is approximated using interest rates and mortality assumptions.

Investments

The value of fair value of investments 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. Investments at June 30, 2011, consist of Prudential Financial common stock.

FAIR VALUE ON A RECURRING BASIS

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

<table>
<thead>
<tr>
<th>Available for</th>
<th>Total</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale Securities</td>
<td>$ 1,203,283</td>
<td>$ 1,203,283</td>
<td>$ 1,203,283</td>
<td>$ 1,203,283</td>
</tr>
<tr>
<td>Total</td>
<td>$ 1,203,283</td>
<td>$ 1,203,283</td>
<td>$ 1,203,283</td>
<td>$ 1,203,283</td>
</tr>
</tbody>
</table>

LITIGATIONS

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 and other proceedings 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.

COMMITMENTS

Contractual Arrangements

The Division of State Lottery maintains a gaming network of almost 1,200 online locations where all games are sold. GTECH Corporation is responsible for operating the online games and providing courier services under a contract which 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 2017.

Future minimum lease payments are as follows:

<table>
<thead>
<tr>
<th>Year Ending June 30</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$802,871</td>
</tr>
<tr>
<td>2013</td>
<td>814,933</td>
</tr>
<tr>
<td>2014</td>
<td>429,904</td>
</tr>
<tr>
<td>2015</td>
<td>154,883</td>
</tr>
<tr>
<td>2016</td>
<td>154,883</td>
</tr>
<tr>
<td>2017</td>
<td>129,069</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$2,486,543</strong></td>
</tr>
</tbody>
</table>

Rent expense for office facilities at June 30, 2011 and 2010, was $1,134,182 and $1,081,213, respectively.

SUBSEQUENT EVENTS
Management has evaluated subsequent events that occurred after the statement of net assets date but before October 18, 2011, the date the financial statements were available to be issued.

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