



NEW JERSEY STATE LOTTERY COMMISSION

Financial Statements and
Management's Discussion and Analysis

June 30, 2002 and 2001

(With Independent Auditors' Report Thereon)

NEW JERSEY STATE LOTTERY COMMISSION

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Management's Discussion and Analysis

Fiscal Year 2002

INTRODUCTION:

The following discussion and analysis provides an analytical overview of the financial position and activities of the New Jersey State Lottery (the Lottery) for the year ended June 30, 2002. This statement was prepared by management and should be read in conjunction with the financial statements and notes here to, which follow this section.

The Lottery was established in 1970 pursuant to the "State Lottery Law," N.J.S.A. 5:9-1, et seq. The 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 Contribution to Education and State Institutions.

The Lottery licenses over 6,000 retailers throughout the State of New Jersey to act as agents in the sale of New Jersey Lottery tickets. Lottery retailers receive compensation in the form of commissions on each ticket sold or validated. The 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 on-line terminal network and the warehousing and distribution of instant tickets and promotional materials.
- Creative Games, Pollard Bank Note and Scientific Games, are contracted to print and support instant game products.
- Verizon communications is contracted to provide digital communication between the Lottery's 6,000 sales terminals and the Gtech data center.

The Lottery offers various products for sale with prize awards ranging from \$2.00 to Annuity prizes excess of \$100 million. The various products sold are:

- Instant Games.
- Pick 3
- Pick 4.
- Jersey Cash 5
- Pick 6 Lotto
- Lotzee
- The Big Game / Mega Millions

FINANCIAL HIGHLIGHTS:

The Lottery's financial position at June 30, 2002 consisted of total assets of \$1.242 billion and total liabilities of \$1.213 billion. A substantial portion of the asset and liability numbers is due to the Lottery's annuity investment in prize awards. The total invested and due to Lottery winners as future installment payments at June 30, 2002 was \$1.110 billion. Net assets increased \$21 million from the prior fiscal year as a result of it's operating and non-operating activities, which are summarized as follows (in millions):

	<u>FY '02</u>	<u>FY '01</u>
Total operating revenue	\$2,098	\$1,838
Total operating expense	<u>1,326</u>	<u>1,150</u>
Operating Income	772	688
Non-operating revenue	<u>3</u>	<u>6</u>
Income before transfers	775	694
Operating transfers out	<u>754</u>	<u>697</u>
Net inc. (dec.) in net assets	<u>\$ 21</u>	<u>\$ (3)</u>

The \$21 million increase in net assets is a result of the unclaimed prize awards, which are restricted to fund either future prizes or state contributions.

FINANCIAL STATEMENTS:

The Lottery's financial statements include a Statement of Net Assets as of June 30 2002, a Statement of Revenues, Expenses and Changes in Net Assets for Fiscal Year June 30, 2002, and a Statement of Cash Flows for Fiscal Year ended June 30, 2002. The financial statements are prepared in accordance with the accounting principles established by the Governmental Accounting Standards Board (GASB).

Summary of Net assets:

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

	<u>FY '02</u>	<u>FY '01</u>
Current Assets	\$ 297	\$ 321
Long Term Annuity Investments	<u>945</u>	<u>1,005</u>
Total Assets	1,242	1,326
Current Liabilities	267	312
Non-current Liabilities	<u>946</u>	<u>1,006</u>
Total Liabilities	<u>1,213</u>	<u>1,318</u>
Restricted Net Assets	26	8
Unrestricted Net Assets	<u>3</u>	<u>-</u>
Total Net Assets	\$ <u>29</u>	\$ <u>8</u>

Current assets consist of cash and cash equivalents, investment in the State of New Jersey Cash Management Fund, accounts receivable, current year annuity investments and prepaid expenses. The investment in the State Cash Management Fund totaled \$99 million at June 30, 2002.

The Lottery funds long term installment prizes with insurance company annuities and United States Treasury securities. The total value of these investments at June 30, 2002 was \$1.11 billion. The Lottery has annuity investments with thirteen (13) insurance companies. The total market value of the United States Treasury securities as of June 30, 2002 was \$25.6 million. The annuity prizes due in fiscal years 2004 and beyond totaled \$945 million and represented the non-current assets reported on the Lottery's Statement of Net Assets.

Current liabilities consist of unpaid prizes awards, accounts payable and outstanding contribution due to the State of New Jersey General Fund. The total unpaid prizes due and payable as of June 30, 2002 totaled \$59 million. There is also \$166 million due to annuity winners in the fiscal year 2003.

Non current liabilities represent annuity prizes due in fiscal years 2004 and beyond and the total due for unused vacation and sick leave.

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

	<u>FY '02</u>	<u>FY '01</u>
Restricted (Expired Prize Awards)	\$ 26	\$ 8
Unrestricted	<u>3</u>	<u>-</u>
Total Net Assets	<u>\$ 29</u>	<u>\$ 8</u>

Expired prizes are restricted to fund either future prizes or state contributions.

Summary of Revenues, Expenses and Changes in Net Assets:

The results of the Lottery's operations are presented in the Statement of Revenues, Expenses and Changes in Net Assets, which is summarized (in Millions) as follows for the year ended June 30, 2002:

	<u>FY '02</u>	<u>FY '01</u>
Ticket Sales	\$2,068	\$1,807
Forfeited Prizes	29	29
Miscellaneous Income	<u>1</u>	<u>2</u>
Total Operating Revenue	2,098	1,838
Prize Awards	1,145	995
Administrative Expenses	23	18
Agent Commissions	113	99
Vendor Fees	38	31
Network Fees	<u>7</u>	<u>7</u>
Total Operating Expenses	<u>1,326</u>	<u>1,150</u>
Operating Income	772	688
Investment Interest Income	<u>3</u>	<u>6</u>
Income Before Transfers	775	694
Operating Transfers - State Contribution	<u>754</u>	<u>697</u>
Increase (Decrease) in Net Assets	<u>\$ 21</u>	<u>\$ (3)</u>

The Lottery awarded over \$1.144 billion in prize awards in fiscal year 2002. Over 79 million winning tickets were validated and paid. The highlight was the Big Game drawing of April 16, 2002 when a New Jersey ticket was one of three top tier winning tickets to share in a \$330 million jackpot. Each winning ticket was entitled to an annuity prize of \$110 million.

Lottery vendors provided critical services to the Lottery in fiscal Year 2002. Their services included the production, warehousing, distribution and accounting for all lottery tickets. The total compensation paid for lottery vendors and network fees, in fiscal year 2002 was \$44.9 million.

The Lottery's administrative expenses for the fiscal year 2002 totaled \$22.7. These administrative expenses include salaries, advertising, auditing services, rent, security, data processing services, office supplies and attorney general fees.

The Lottery is required by State of New Jersey law to contribute at least 30 % of total revenue to the State of New Jersey for Education and State Institutions. The fiscal year 2002 original budget projection was for the Lottery to contribute \$747 million. As a result of various sales initiatives, game enhancements and efficient operations, The Lottery contributed over \$754 million, 35.9% of total revenue.

SUMMARY AND OUTLOOK:

The 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.

Lottery management will continue to monitor its product mix to maintain player interest. Various programs such as "double draw", "double payout" and "free play coupons" have proven to be successful in maintaining this interest. Management will also monitor prize payout percentages and drawing odds in order to achieve an effective mix, which will be both beneficial to players and state contributions.



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Independent Auditors' Report

Commissioners of the
New Jersey State Lottery Commission:

We have audited the accompanying basic financial statements of the New Jersey State Lottery Commission (the "Commission"), as of and for the years ended June 30, 2002 and 2001, as listed in the accompanying table of contents. These financial statements are the responsibility of the Commission'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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1, the financial statements present only the Commission and do not purport to, and do not, present fairly the financial position of the State of New Jersey as of June 30, 2002 and 2001, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the New Jersey State Lottery Commission as of June 30, 2002 and 2001, 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.

As discussed in note 1, the Commission adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, as of July 1, 2001.

The Management's Discussion and Analysis on pages 1 through 5 is not a required part of the basic financial statements but is supplemental 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 supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for that portion marked "unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in the audits 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.

KPMG LLP

September 30, 2002

NEW JERSEY STATE LOTTERY COMMISSION

Statements of Net Assets

June 30, 2002 and 2001

Assets	2002	2001
Current assets:		
Cash	\$ 513,748	1,411,250
Accounts receivable, net of allowance for doubtful accounts of \$150,000 in 2002 and 2001	19,519,004	15,698,463
Investments:		
State of New Jersey cash management fund	99,284,467	127,522,317
Deposit fund contracts (note 2)	165,708,704	166,702,004
Other assets	12,412,233	9,942,911
Total current assets	<u>297,438,156</u>	<u>321,276,945</u>
Noncurrent assets:		
Investments deposit fund contracts (note 2)	944,904,514	1,004,952,136
Total assets	<u>1,242,342,670</u>	<u>1,326,229,081</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	26,819,156	20,958,591
Obligation for unpaid prize awards	59,359,092	47,252,192
Installment prize awards – current portion	165,708,704	166,702,004
Due to State of New Jersey – education and institutions	15,549,833	77,397,293
Total current liabilities	<u>267,436,785</u>	<u>312,310,080</u>
Noncurrent liabilities:		
Compensated absences	872,089	818,951
Installment prize awards	944,904,514	1,004,952,136
Total noncurrent liabilities	<u>945,776,603</u>	<u>1,005,771,087</u>
Total liabilities	<u>1,213,213,388</u>	<u>1,318,081,167</u>
Net Assets		
Restricted for prize awards or contributions for aid to education and State institutions	26,357,748	8,475,181
Unrestricted	2,771,534	(327,267)
Total net assets	<u>\$ 29,129,282</u>	<u>8,147,914</u>

See accompanying notes to financial statements.

NEW JERSEY STATE LOTTERY COMMISSION
 Statements of Revenues, Expenses, and Changes in Net Assets
 Years ended June 30, 2002 and 2001

	2002	2001
Operating revenues:		
Ticket sales:		
Pick 3	\$ 456,301,422	437,647,365
Pick 4	256,008,816	239,161,148
Jersey Cash 5	75,075,460	67,537,384
Pick 6 Lotto	189,870,192	195,763,838
Lotzee	23,720,258	24,317,798
The Big Game	293,866,013	166,389,139
Instant games	773,664,707	675,877,939
Total ticket sales	2,068,506,868	1,806,694,611
Other revenue:		
Forfeited prize awards	28,842,236	28,611,726
Miscellaneous	904,236	2,484,374
Total operating revenues	2,098,253,340	1,837,790,711
Operating expenses:		
Prize expense	1,144,736,660	994,764,296
Administrative expenses	22,742,189	18,545,994
Commissions – agents	113,440,214	99,305,191
Vendor fees – machine	26,829,089	22,576,699
Vendor fees – instant	10,874,799	8,230,579
Multi-state fees	51,418	18,875
On-line network fees	7,247,920	6,816,802
Total operating expenses	1,325,922,289	1,150,258,436
Operating income	772,331,051	687,532,275
Nonoperating revenues:		
Investment revenue	3,200,150	6,540,964
Income before transfers out	775,531,201	694,073,239
Transfers out – contributions for aid to education and State institutions	(754,549,833)	(697,397,293)
Change in net assets	20,981,368	(3,324,054)
Net assets, beginning of year, as restated (note 4)	8,147,914	11,471,968
Net assets, end of year	\$ 29,129,282	8,147,914

See accompanying notes to financial statements.

NEW JERSEY STATE LOTTERY COMMISSION

Statements of Cash Flows

Years ended June 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:		
Cash flows from current operations:		
Sales to customers	\$ 1,155,641,151	990,392,881
Payments for prize awards	(330,377,661)	(248,782,303)
Payments for vendor commissions and fees	(47,509,563)	(33,443,593)
Payments for bond insurance	(483,360)	(476,525)
Payments to suppliers	(15,119,193)	(16,664,680)
Other payments	(43,634)	—
Cash flows from annuity operations:		
Annuity receipts	169,908,079	165,887,599
Purchases of annuities	(25,397,712)	(25,288,978)
Payments for annuity prizes	(122,556,316)	(176,557,479)
Net cash provided by operating activities	<u>784,061,791</u>	<u>655,066,922</u>
Cash flows from noncapital financing activities:		
Transfers out – contributions for aid to education and State institutions	<u>(816,397,293)</u>	<u>(687,928,948)</u>
Cash flows from investing activities:		
Purchases of investments - State of NJ Cash Management Fund	(1,087,455,000)	(957,887,174)
Sales of investments - State of NJ Cash Management Fund	<u>1,118,893,000</u>	<u>989,281,000</u>
Net cash provided by investing activities	<u>31,438,000</u>	<u>31,393,826</u>
Net decrease in cash	(897,502)	(1,468,200)
Cash, beginning of year	<u>1,411,250</u>	<u>2,879,450</u>
Cash, end of year	<u>\$ 513,748</u>	<u>1,411,250</u>
Reconciliation of net operating income to net cash provided by operating activities:		
Operating income	\$ 772,331,051	687,532,275
Changes in assets and liabilities:		
Accounts receivable	(3,820,541)	(2,832,792)
Other assets	(2,469,322)	(1,222,934)
Investments: deposit fund contracts	61,040,922	21,187,922
Accounts payable and accrued expenses	5,860,565	(11,076,134)
Obligation for unpaid prize awards	(48,934,022)	(38,435,613)
Compensated absences	53,138	(85,802)
Net cash provided by operating activities	<u>\$ 784,061,791</u>	<u>655,066,922</u>

See accompanying notes to financial statements.

NEW JERSEY STATE LOTTERY COMMISSION

Notes to Financial Statements

June 30, 2002 and 2001

(1) Summary of Significant Accounting Policies

Reporting Entity

The New Jersey State Lottery Commission (the Commission) was established in 1970 pursuant to the “State Lottery Law,” N.J.S.A. 5:9-1, et seq. The Commission operates within the Department of Treasury of the State of New Jersey. The Commission’s financial statements are presented as an enterprise fund and include the operations for which the Commission is financially accountable and exercises oversight responsibility. The Commission 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 agents, and the apportionment of ticket revenues.

Basis of Accounting

Effective July 1, 2001, the Commission adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*. GASB Statement No. 34 establishes financial reporting standards for state and local governments. Based on the provisions of GASB Statement No. 34, the Commission is now included in the State of New Jersey Comprehensive Annual Financial Report as an enterprise fund and subjected to full accrual accounting. As a result of the adoption, the opening net assets for July 1, 2000 have been restated (see note 4). Resulting significant changes to the financial statements are:

- The inclusion of a Management’s Discussion and Analysis section.
- The classification of assets and liabilities as either current or noncurrent.
- The categorization of net assets as invested in capital assets, net of related debt, restricted (nonexpendable and expendable), or unrestricted.
- The classification of revenues and expenses as either operating or nonoperating.
- The presentation of a statement of cash flows using the direct method.
- The recording of a compensated absences liability.

The Commission prepares its financial statements using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that Uses Proprietary Funds*, provides proprietary activities with a choice of authoritative guidance issued after November 30, 1989. The Commission has elected to follow GASB pronouncements exclusively after that date. The following is a summary of other significant accounting policies of the Commission.

NEW JERSEY STATE LOTTERY COMMISSION

Notes to Financial Statements

June 30, 2002 and 2001

Contributions and Prize Awards

The State Lottery Law requires at least 30% of gross revenues from ticket sales to be paid to the State Treasury for aid to education and State institutions. Pursuant to this law, the Commission has also designated all unallocated revenues for aid to education and State institutions. Contributions for the years ended June 30, 2002 and 2001 aggregated \$754,549,833 and \$697,397,293, respectively, of which \$15,549,833 and \$77,397,293 was due to the State Treasury at June 30, 2002 and 2001, respectively.

The Commission has designated that a minimum of 45% of gross revenues be allocated for prize awards, including agent bonuses. A prize expense is recorded when the winning ticket number is selected for the respective lottery game based on eligible winning tickets sold.

Forfeited Prizes

New Jersey Law requires that prizes not claimed within one year from the date of the drawing are forfeited and are included in other revenues during the period forfeited. Effective November 21, 1991, the Commission authorized that 70% of forfeited prizes are to be maintained in a reserve for prize awards. Such funds are available to augment future prize awards or, at the discretion of the executive director, to augment the Lottery's contribution for aid to education and State institutions. For the year ended June 30, 2002 unclaimed prizes aggregating \$28,842,236 were forfeited and are included in other revenues. For the year ended June 30, 2001 unclaimed prizes aggregating \$28,611,726 were forfeited and are included in other revenues.

Revenue Recognition

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

- "Pick-3", "Pick-4", "Pick-6 Lotto", "Jersey Cash 5", "Lotzee", and "Mega Millions" (formerly The Big Game) on the drawing date.
- Instant games, daily based upon the settlement of instant game inventory packs by selling agents. Sales adjustments are recorded based upon final reconciliations prepared after the termination of a lottery instant game.

Commissions and Fees

Agents receive a commission of 5% based on the total tickets sold and a commission of 1.25% of terminal validations. The on-line 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.

NEW JERSEY STATE LOTTERY COMMISSION

Notes to Financial Statements

June 30, 2002 and 2001

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. The State of New Jersey Cash Management Fund is a common trust fund administered by the State Department of the Treasury, Division of Investment. Securities in the fund are insured, registered or held by the Division of Investment or its agent in the Commission's name.

Accounts Receivable

Accounts receivable is comprised primarily of amounts due from agents.

Equipment and Inventory

The Commission follows the State's threshold for capitalizing equipment and inventory as follows; machinery and equipment \$20,000; and motor vehicles \$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 in which they are acquired.

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 Commission for prize disbursements. The Commission purchases annuity contracts from insurance companies and U.S. Government Securities to fund its liability for installment prize awards. 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.

Vacation and Sick Leave

The Commission 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. The 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.

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 of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NEW JERSEY STATE LOTTERY COMMISSION

Notes to Financial Statements

June 30, 2002 and 2001

(2) Future Installment Prize Awards

The Commission purchases annuity contracts from insurance companies and U.S. Government securities to fund its liability for future installment prize awards. 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. Annuity contracts are carried at their current contract values which are based upon their original purchase price adjusted for credited interest and amounts already received. Annuity contracts are subject to credit risk. The Commission seeks to control its exposure to such credit risk by purchasing annuity contracts only from insurance companies which meet certain minimum standards. Such standards include a minimum required claims payment rating from Standard and Poors Corporation, a private rating agency, of at least "AA". However, due to the long-term nature of these contracts, the credit quality of the issuer is subject to change. At June 30, 2002 and 2001, the Commission held annuity contracts totaling \$1,110,613,218 and \$1,171,654,140, respectively, issued through thirteen insurance companies. The projected future costs of installment prize awards amount to \$1,624,623,624, which are due in installments ranging from ten years to the lifetime of the recipient. A significant portion of the Commission's investment in annuity contracts at such date is concentrated among five companies as follows:

- Ohio National Life
- New York Life Insurance Co.
- Mutual of America
- Alexander Hamilton Life Insurance Co.
- Great West Life Assurance Co.

The estimated fair value of annuity contracts approximates the carrying value reflected in the accompanying statements of net assets at June 30, 2002 and 2001. Fair value has been estimated by discounting future cash flows using the current rates of annuity contracts with similar credit ratings and maturities.

(3) Litigation

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

(4) Net Assets as of Beginning of Period

As a result of the implementation of Governmental Accounting Standards Board No. 34, the Commission has restated its July 1, 2000 fund balances and recorded compensated absences as follows:

Net assets as of July 1, 2000, as previously reported	\$ 12,376,721
Compensated absences liability	<u>(904,753)</u>
Net assets as of July 1, 2000, as restated	<u>\$ 11,471,968</u>

NEW JERSEY STATE LOTTERY COMMISSION

Notes to Financial Statements

June 30, 2002 and 2001

(5) Commitments

Contractual Arrangements

The Commission maintains a gaming network of over 6,000 on-line locations where all games are sold. GTECH Corporation is responsible for operating the on-line games and providing courier services under a contract expiring November 23, 2006.

Operating Leases

The Commission leases certain office facilities under noncancelable operating lease agreements expiring through fiscal year 2005.

Future minimum lease payments are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2003	\$ 668,650
2004	668,650
2005	278,604

Rent expense for office facilities in 2002 and 2001 was \$839,649 and \$857,015, respectively.

Schedule 1

NEW JERSEY STATE LOTTERY COMMISSION

Schedule of Revenues, Expenses, and Changes in Net Assets – Budget and Actual

Year ended June 30, 2002

	Budget (unaudited)	Actual	Variance favorable (unfavorable)
Operating revenues:			
Ticket sales, all games	\$ 1,982,959,000	2,068,506,868	85,547,868
Other revenue:			
Forfeited prize awards	16,835,000	28,842,236	12,007,236
Miscellaneous	1,000,000	904,236	(95,764)
Total operating revenues	<u>2,000,794,000</u>	<u>2,098,253,340</u>	<u>97,459,340</u>
Operating expenses:			
Prize expense	1,086,586,000	1,144,736,660	(58,150,660)
Administrative expenses	21,775,000	22,742,189	(967,189)
Commissions – agents	108,742,000	113,440,214	(4,698,214)
Vendor fees – machine	25,495,000	26,829,089	(1,334,089)
Vendor fees – instant	9,771,000	10,874,799	(1,103,799)
Multi-state fees	25,000	51,418	(26,418)
On-line network fees	6,800,000	7,247,920	(447,920)
Total operating expenses	<u>1,259,194,000</u>	<u>1,325,922,289</u>	<u>(66,728,289)</u>
Operating income	741,600,000	772,331,051	30,731,051
Nonoperating revenues:			
Investment revenue	5,400,000	3,200,150	(2,199,850)
Income before transfers out	747,000,000	775,531,201	28,531,201
Transfers out – contributions for aid to education and State institutions	<u>(747,000,000)</u>	<u>(754,549,833)</u>	<u>(7,549,833)</u>
Change in net assets	—	20,981,368	20,981,368
Net assets, beginning of year, as restated	<u>8,147,914</u>	<u>8,147,914</u>	<u>—</u>
Net assets, end of year	<u>\$ 8,147,914</u>	<u>29,129,282</u>	<u>20,981,368</u>

Schedule 2

NEW JERSEY STATE LOTTERY COMMISSION

Schedule of Instant Game Revenues

Years ended June 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Crossword (K)	\$ 31,939,191	—
Crossword (J)	31,690,704	—
Crossword (I)	29,910,675	—
Crossword (H)	23,562,354	8,013,264
Crossword (L)	22,495,944	—
Big Money Spectacular	21,281,896	—
Classic Bingo	19,034,166	—
Win For Life (U)	16,497,912	—
Jacks or Better	16,468,485	—
Casino Fortune	16,250,485	—
Win For Life (T)	16,083,264	—
Double Bingo	15,977,814	—
Holiday Magic	15,335,540	—
Beach Blanket Bingo	13,590,931	535,536
Masquerade Party	13,197,180	—
Jacks or Better	12,168,595	—
Holiday Wishes	11,869,148	—
Wild Cash	11,598,312	—
Happy Birthday (A)	11,324,364	—
Viva Las Vegas	11,291,060	—
Super Bucks	11,139,340	—
Cash Safari	11,132,294	—
All New Bingo (E)	10,928,274	—
Hollywood Squares	10,900,844	—
10 Times Lucky	10,715,392	—
Super 7's	10,625,900	—
Life Styles Rich Famous	10,346,866	—
Maui Money	10,054,178	—
Let's make a Deal	9,858,594	—
You Struck Gold	9,807,660	—
Super Blackjack	9,775,940	7,420,560
Winter Green	9,688,826	—
Valentine Kisses	9,257,504	—
Cash Tripler	9,023,199	—
Shore Thing	8,934,256	—
Red Hot Doubler	8,541,394	—
Cool Cash Doubler	8,535,812	—
Lucky Slots	8,339,169	—
Double Your Luck (B)	8,070,335	—
Instant Million	7,967,490	10,184,990
Spring Fever	7,835,622	—
Lucky Number Bingo	7,823,175	8,670,387
Me & My Money	7,659,736	—
Win For Life (S)	7,617,522	9,201,954
Rake it In	7,559,932	—
Raceway Riches	7,057,272	—
Sand Treasures	6,985,990	1,950,300

Schedule 2

NEW JERSEY STATE LOTTERY COMMISSION

Schedule of Instant Game Revenues

Years ended June 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
2002 & Beyond	\$ 6,881,157	—
Instant Lotzee	6,805,048	—
All New Bingo (D)	6,562,976	3,598,532
Touchdown (B)	6,023,533	—
Garden State Green	6,003,330	—
Halloween Cash	6,002,048	—
Solitaire	5,847,369	—
Club Casino	5,784,120	—
Marry Money	5,744,316	—
Sunny Money	5,646,034	4,164,178
Every Dream a Jackpot	5,479,366	—
Gone Fishing	5,437,905	545,100
CMT Country Music	5,394,792	—
Lots O' Spots Bingo	5,339,973	—
Queen for a Day	5,218,744	—
Cash Blast	4,647,884	1,144,135
Heroes of Space	4,644,758	—
Win For Life (V)	4,388,706	—
Grand Slam	4,183,040	—
Golf & Cash	3,771,740	7,106,718
Spam	3,615,524	4,378,786
3's For The Money	3,253,160	7,183,706
Baseball Bucks (B)	3,187,130	2,913,296
Birthday Cheer	3,120,064	—
Happy Father's Day	2,870,801	1,565,958
Dad's Day Doubler	2,855,865	—
2001: A Cash Odyssey	2,781,636	6,166,587
Instant Battleship	2,773,344	12,339,684
Star Spangle Doll	2,586,000	—
Green Garden	2,001,494	8,072,860
Double Diamond Slots	1,922,441	5,662,053
Deep Sea Doubler	1,836,769	6,383,406
Golden Lips	1,578,772	9,600,362
High Tides	1,564,500	—
Elvis	1,554,628	8,031,004
Tabasco Hot Cash	1,440,000	—
Deuces Wild (B)	1,400,914	6,925,579
Cool Winnings	1,266,530	8,734,654
Celebrate 30 years (B)	1,205,976	7,355,979
Bridal Bucks	1,089,686	5,149,920
Mother's Day (D)	994,043	4,643,693
Pinball Wizard	970,485	16,228,560
Big Money Spectacular	964,500	—
Crab Doubler	883,200	—
Wild Cherry Slots	788,104	6,031,404
Color of Money	778,122	8,291,730
Keno	654,273	14,248,887

Schedule 2

NEW JERSEY STATE LOTTERY COMMISSION

Schedule of Instant Game Revenues

Years ended June 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Classic Bingo (B)	\$ 648,900	—
Crossword (G)	641,193	31,379,118
Leprechaun Luck (B)	614,675	5,255,887
Pharoh's Fortune	489,434	10,707,852
Celebrate 30 years	487,767	5,823,057
Instant Pick 4	397,680	5,446,392
Windfall	387,924	9,593,158
Blue Chip Stock	373,172	7,795,418
Triple Tripler	309,187	8,376,567
Mardi Gras	293,840	16,798,160
All New Bingo (C)	282,734	9,390,524
Red White Blue Shots	217,860	5,675,837
Blizzard Bucks	160,910	10,962,704
High 5's	157,108	11,041,080
Blackout Bingo	145,050	14,866,020
Bahama Bonus Poker	77,454	10,580,736
Shore Excitement	67,296	9,178,870
Win For Life (R)	67,131	16,745,040
Happy Birthday (C)	67,092	10,665,956
Monster Money	48,426	5,259,160
Fat Cat Doubler	44,569	7,927,302
Wild Money (B)	44,534	10,928,402
Touchdown Dollars	43,705	5,904,957
\$1,000,000 Stocking	37,890	12,200,550
Money Maze	30,507	1,341,705
Snake Eyes	26,855	8,263,491
30th Anniversary	24,585	2,573,616
Caesars Palace	22,495	17,001,740
All New Bingo (B)	22,026	10,606,428
Betty Boop	18,720	10,940,216
Red Hot Spots	16,494	6,036,036
Holiday Gift Pack (A)	12,610	7,980,405
Double Dare	7,793	8,019,803
Crossword (F)	5,400	16,777,146
Crossword (E)	2,400	16,086,315
7-11-21	(304)	416,021
\$1 Million Celebration	—	(300)
\$5,000 Jackpot	(300)	(762)
12 Ways to Celebrate	—	(1,500)
50 Grand	(300)	—
50 Smackers	(2)	40,008
Abra-Ca-Da-Bra	(1,530)	10,880,560
Ace in the Hole	(300)	5,891
All New Bingo (A)	(678)	1,807,294
Amazin 8's	—	11,144
Autumn Glory	(600)	180,630
Baseball Bucks (A)	(300)	14,282
Bingo (B)	(166)	45,674

Schedule 2

NEW JERSEY STATE LOTTERY COMMISSION

Schedule of Instant Game Revenues

Years ended June 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Bingo Extra	\$ (900)	538,191
Birthday Cheer	(120)	—
Blackjack	—	(600)
Blue Skies and Buttercups	(600)	9,900
Break the Bank	(604)	586,004
Bullseye	—	5
Caribbean Stud Poker	(2)	11,472
Carnival Cash	(605)	1,707,265
Cash Bam Boom	(4,964)	4,838,462
Cash Vault (B)	—	(600)
Casino Action	(2,105)	248,545
Cold Cash Doubler	(3)	285,611
Countdown to the Holidays	(1,800)	103,850
Crack the Safe	(172)	4,900,556
Crazy Aces	(694)	850,895
Crossword (A)	—	6,012
Crossword (B)	(12)	20,325
Crossword (C)	(303)	389,067
Crossword (D)	(303)	9,781,272
Deal Me In	(379)	275,798
Deuces Wild (A)	—	(900)
Double Dollars (B)	—	298
Double Dollars (C)	(606)	47,780
Double Down	(1,500)	9,870,330
Double Your Luck (A)	(540)	5,651,591
Father's Day (A)	—	(300)
Father's Day (B)	(300)	(6,216)
Father's Day (C)	(9,108)	2,323,799
Football Fever	—	(300)
Frankencash	—	(139)
Frosty Dollars	—	(46)
Golden Ghost	(602)	52,396
Happy Birthday (B)	—	7,277
Hearts are Wild	(494)	225,109
High Roller	(900)	(5,700)
Holiday Surprise (A)	(1,495)	993
Holiday Wishes	(600)	12,900
Jeopardy	(2)	2,089,136
Keys to the Castle	(602)	1,109,298
Kisses & Cash	—	(2)
League Night	(600)	(1,565)
Leprechaun Luck (A)	—	(300)
Louisville Slugger	(144)	5,429,242
Lucky 7's Bingo	(1,806)	1,621,503
Lucky Eightball	(604)	482,188

Schedule 2

NEW JERSEY STATE LOTTERY COMMISSION

Schedule of Instant Game Revenues

Years ended June 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Megabucks Slots	\$ (2,088)	2,259,500
Merry Money	—	(308)
Mother's Day (B)	—	(1,847)
Mother's Day (C)	(4,950)	934,865
Nines In A Line	(300)	8,206,030
Old Glory	(600)	3,599
One for the Money	—	(2,995)
Open Sesame	—	(922)
Quick Silver	(1,429)	253,632
Red Hot Doubler (B)	(301)	39,457
Roulette Cash	(600)	(1,801)
Royal Ransom (A)	(614)	2,184,890
Sales adjustment	(62,703)	(22,283)
Sands Casino Bucks	—	(830)
Seymour Bucks	(300)	9,942
Spin to Win	(904)	1,743,638
Spring Blossoms	(924)	2,100,304
St. Patty's Day	(2)	95,337
Stakes Are High	(270)	2,663,355
Sunshine & Daydreams	(600)	540,106
Super 7's (A)	(600)	—
Super 7's (D)	—	76
Super Slots	(300)	(438)
The Winning Ticket	—	(2,608)
Three Wishes	—	(602)
Ticket to Ride	(3,714)	346,680
Touchdown (A)	(1,596)	286,928
Treasure Hunt	(300)	4,346
Triple Action	(4)	1,750,249
Tripling Dollars	—	5,358
Turn of the Century	(651)	713,421
Wedding Celebration	—	5,844
Wild Bingo	(600)	3,581,196
Wild Money (A)	(300)	4,533
Wild Wild Winning	(300)	(1,610)
Win For Life (N)	—	(1,641)
Win For Life (O)	(1,200)	7,854
Win For Life (P)	(6)	862,614
Win For Life (Q)	(1,200)	15,377,055
Winner Wonderland	(304)	29,878
Winning Combination	—	(300)
Winning Deal	(300)	(1,647)
Zodiac (B)	(136)	4,474,330
Total instant game revenues	\$ <u>773,664,707</u>	<u>675,877,939</u>

Schedule 3

NEW JERSEY STATE LOTTERY COMMISSION

Schedule of Administrative Expenses

Years ended June 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Other professional services	\$ 12,807,761	9,236,647
Salaries	7,332,495	6,902,066
Rent - building and ground	839,649	857,015
Professional services	414,948	351,479
Printing and office supplies	361,144	317,414
Data processing - OIT	214,190	63,432
Household and security	200,348	192,195
Travel	155,433	175,794
Telephone	95,761	86,952
Postage	90,338	96,000
Central motor pool	76,041	94,879
Data processing	41,104	47,008
Vehicular equipment	30,488	—
Info processing equipment	25,175	53,522
Maintenance - office equipment	18,374	17,518
Other equipment	17,622	31,270
Maintenance - building and grounds	11,665	11,706
Household and clothing	5,340	6,860
Rent - other	2,877	3,503
Other supplies	925	—
Vehicular supplies	496	401
Maintenance - vehicles	15	333
Total administrative expenses	<u>\$ 22,742,189</u>	<u>18,545,994</u>