

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



**Annual Report
Fiscal Year 1994**

Christine Todd Whitman
Governor

Brian W. Clymer
State Treasurer

James Cicalese
Chairman

Virginia E. Haines
Executive Director

New Jersey State Library



STATE OF NEW JERSEY
DEPARTMENT OF THE TREASURY
DIVISION OF STATE LOTTERY
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RISTINE TODD WHITMAN
GOVERNOR

BRIAN W. CLYMER
STATE TREASURER

Dear Friends,

As this Annual Report details, the past fiscal year has been a highly successful one for the New Jersey Lottery, and has enabled us to achieve our primary mission: to provide funds to aid State education and institutions. I have the pleasure of noting that a total of \$602.8 million has been made available to important State programs in fiscal year 1994 thanks to the interest of our players, and the dedication of more than 5,200 New Jersey Lottery sales agents.

The continued popularity of the New Jersey Lottery is evidenced by the record sales of \$1.43 billion, which represents an across the board increase of \$67.2 million, or 4.9 percent over the previous fiscal year.

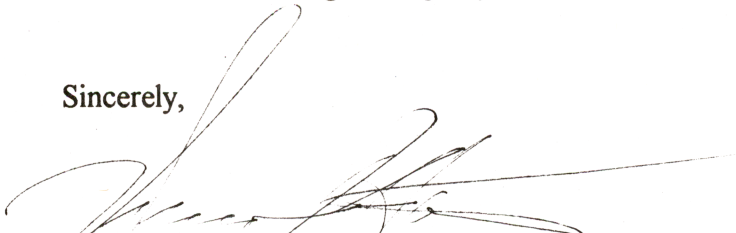
Many in New Jersey have benefitted from the Lottery's success. Certainly the 35.7 million players who won a total of \$722.6 million in prize awards in the past fiscal year have profited. However, it is also important to recognize that the State's economy is also a benefactor of the Lottery, particularly small businesses.

Including prize money distributed in fiscal year 1994, a total of \$842.6 million -- that's 58.2 percent of Lottery revenues -- flowed back into the State's economy. And of that total, \$77.5 million represents commissions paid to our Lottery agents, most of which are small retailers, who in turn use those commissions to pay salaries to their employees and buy other goods and services that also benefit the economy.

I know I speak for all of us at the New Jersey Lottery when I say how much we appreciate the support from the citizens of our great State, and how proud we are to report a successful year.

Finally, I should point out that starting in 1995 we will be celebrating the Silver Anniversary of the New Jersey Lottery, and we look forward to an exciting and equally successful year ahead.

Sincerely,



Virginia E. Haines
Executive Director



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ARTHUR ANDERSEN LLP

Report of Independent Public Accountants

To the Commissioners of the
New Jersey State Lottery Commission:

We have audited the accompanying balance sheets of the New Jersey State Lottery Commission (the "Commission") as of June 30, 1994 and 1993 and the related combined statements of revenues, expenditures and contributions and changes in fund balances for the years then ended. 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. The combined statements of revenues, expenditures and changes in fund balances for the cumulative 258 months ended June 30, 1992 and the 282 months ended June 30, 1994, were not audited by us and, accordingly, we do not express an opinion on them.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the New Jersey State Lottery Commission as of June 30, 1994 and 1993 and the results of its operations and its changes in fund balances for the years then ended in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Princeton, New Jersey
August 30, 1994



BALANCE SHEETS

JUNE 30, 1994

WITH COMPARATIVE TOTAL MEMORANDUM FIGURES FOR 1993

	Lottery Special Revenue Fund	Lottery Agency Fund	Lottery Administrative Fund	Total (Memorandum Only)	
				1994	1993
ASSETS					
Cash	\$1,228,248	-	\$250	\$1,228,498	\$1,832,748
Accounts Receivable, Net	22,687,492	-	-	22,687,492	18,322,057
Interfund Receivable - Administration	-	-	2,961,957	2,961,957	2,512,928
Investments:					
Deposit Fund Contracts	-	993,648,851	-	993,648,851	867,381,726
State Of New Jersey Cash Management Fund	77,786,839	-	-	77,786,839	55,116,448
Deferred Expenses and Other Assets	4,543,223	-	-	4,543,223	4,057,081
Total Assets	\$106,245,802	\$993,648,851	\$2,962,207	\$1,102,856,860	\$949,222,988
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable and Accrued					
Liabilities	\$10,639,713	-	\$2,223,920	\$12,863,633	\$8,949,682
Obligation for Unpaid Prize Awards	23,574,475	-	-	23,574,475	21,793,676
Due To State Of New Jersey - Education and Institutions	61,282,691	-	-	61,282,691	41,868,360
Interfund Payable - Administration	2,961,957	-	-	2,961,957	2,512,928
Installment Prize Obligations	-	993,648,851	-	993,648,851	867,381,726
Total Liabilities	98,458,836	993,648,851	2,223,920	1,094,331,607	942,506,372
Fund Balances:					
Reserved For Encumbrances	-	-	738,287	738,287	772,376
Reserved For Prize Awards	7,536,966	-	-	7,536,966	5,694,240
Reserved For Bond Insurance	250,000	-	-	250,000	250,000
Total Fund Balances	7,786,966	-	738,287	8,525,253	6,716,616
Total Liabilities And Fund Balances	\$106,245,802	\$993,648,851	\$2,962,207	\$1,102,856,860	\$949,222,988

See notes to financial statements



Comparative Statements

Combined Statements of Revenues, Expenditures and
Changes in Fund Balances

	CUMULATIVE 258 MONTHS *ENDED JUNE 30, 1992	12 MONTHS ENDED JUNE 30, 1993	12 MONTHS ENDED JUNE 30, 1994	CUMULATIVE 282 MONTHS *ENDED JUNE 30, 1994	%
REVENUES:					
GROSS SALES	\$13,480,424,293	\$1,363,891,790	\$1,431,072,179	\$16,275,388,262	98.61%
FORFEITED PRIZES	149,892,280	15,610,820	13,919,527	179,422,627	1.09%
INTEREST INCOME	42,822,319	1,481,825	1,695,392	45,999,536	0.28%
MISCELLANEOUS INCOME	2,585,484	512,427	470,775	3,568,686	0.02%
	13,675,724,376	1,381,496,862	1,447,157,873	16,504,379,111	100.00%
EXPENDITURES:					
PRIZE EXPENSE	6,705,926,563	684,595,789	722,641,537	8,113,163,889	49.16%
COMMISSION TO AGENTS & BANKS	737,375,082	73,796,362	77,448,942	888,620,386	5.38%
OPERATING EXPENSES	240,883,326	18,525,297	18,328,787	277,737,410	1.68%
GAME CONTRACTOR FEES	233,484,710	22,087,320	23,396,615	278,968,645	1.69%
COURIER COLLECTION FEE	8,479,375	763,609	763,592	10,006,576	0.06%
START UP COSTS	686,137	-	-	686,137	-
PROVISION FOR DOUBTFUL ACCOUNTS	280,980	18,916	-	299,896	-
	7,927,116,173	799,787,293	842,579,473	9,569,482,939	57.97%
CONTRIBUTION FOR AID TO EDUCATION AND STATE INSTITUTIONS	5,741,896,245	581,704,911	602,769,763	6,926,370,919	41.97%
TOTAL EXPENDITURES AND CONTRIBUTION	13,669,012,418	1,381,492,204	1,445,349,236	16,495,853,858	99.94%
REVENUES OVER EXPENDITURES AND CONTRUBUTION	6,711,958	4,658	1,808,637	8,525,253	0.06%
FUND BALANCES, BEGINNING OF PERIOD	-	6,711,958	6,716,616	-	-
FUND BALANCES, END OF PERIOD	\$6,711,958	\$6,716,616	\$8,525,253	\$8,525,253	0.06%

See notes to financial statements.

*Figures not covered by report of independent public accountants.

**NEW JERSEY STATE LOTTERY COMMISSION
NOTES TO FINANCIAL STATEMENTS**

(1) Organization and accounting practices:

Authorizing legislation-

The New Jersey State Lottery Commission was established in 1970 pursuant to the "State Lottery Law," N.J.S.A. 5:9-1, et seq. The Commission is within the Department of Treasury of the State of New Jersey (The Treasury). 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-

The Commission prepares its financial statements using the modified accrual basis of accounting for governmental fund types. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Expenditures are recorded when the liability is incurred, if measurable. The following is a summary of the significant accounting practices of the Commission-

The various funds of the Commission are included as part of several funds included in the State of New Jersey's annual financial report. The following funds are included in the Commission's financial statements-

Special Revenue Fund-

This fund is established to account for revenue and expenditures of lottery games and is included in the State's Special Revenue Fund.

Agency Fund-

This fund accounts for installment prize obligations and the related investments held to satisfy those obligations. This fund is included as part of the State's Agency Fund.

Administrative Fund-

This fund accounts for the operating expenditures for the administration of the Commission and is included in the State's General Fund. For financial reporting purposes, the revenues, expenditures and changes in fund balance of the Special Revenue Fund and the Administrative Fund have been combined. For the years ended June 30, 1994, and 1993, the Commission's contribution for administrative expenses and encumbrance obligation aggregated \$18,395,075 and \$19,020,877, respectively, of which \$2,961,957 was payable to the Treasury at June 30, 1994.

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, 1994 and 1993 aggregated \$602,769,763 and \$581,704,911, respectively, of which \$61,282,691 was due to the State of New Jersey at June 30, 1994.

The Commission has designated that a minimum of 45% of gross revenues be reserved for prize awards, including agent bonuses. A prize award obligation is established when the winning ticket number is selected for the respective lottery game based on eligible winning tickets sold. The obligation is funded from the respective prize reserve accounts.

Forfeited prizes-

New Jersey Law requires that prizes not claimed within one year from the date of the drawing are 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 to aid education and state institutions. In June 1994 and 1993, the Executive Director authorized an additional contribution to aid education and state institutions totaling \$10,000,000 and \$12,000,000, respectively. These amounts are included in other income for the years ended June 30, 1994 and 1993. For the years ended June 30, 1994, and 1993, unclaimed prizes aggregating \$13,046,827 and \$12,036,067, respectively, were forfeited of which \$3,919,527 and \$3,610,820, respectively, are included in other income. At June 30, 1994, accounts payable and accrued liabilities include \$786,094 related to forfeited prizes.

Revenue recognition-

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

- Pick-Three, Pick-Four, Pick-Six Lotto and Jersey Cash 5 on the drawing date.
- Instant games, on a daily basis. Sales adjustments are recorded based upon final reconciliations prepared after the termination of a lottery instant game. Lottery tickets claimed and disbursed by agents as free ticket prizes are not reflected as lottery ticket sales or prize awards.

Cash Management Fund-

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

Accounts receivable-

Accounts receivable is comprised primarily of amounts due from agents.

Equipment and inventory-

Equipment and inventory of the Commission are recorded in the General Fixed Asset Account Group of the State of New Jersey. Items of this nature are recognized as expenditures in the statement of revenues, expenditures and contributions of the Commission during the period in which they are acquired. Equipment and inventory are estimated to be immaterial by management of the Commission.

Installment prize obligations and amount allocated to prize amounts-

Installment prize obligations 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 to fund its liability for

installment prize obligations. Amounts allocated to prize awards reflect the anticipated cost of annuity contracts necessary to satisfy stated prize awards plus any single payment awards. At June 30, 1994 the projected future costs of prize obligations amount to \$1,743,508,604 which are due in installments ranging from ten years to the lifetime of the recipient.

Vacation and sick leave-

Accumulated unpaid vacation, sick pay, and other employee benefits are not accrued. In the event of retirement, an employee is reimbursed for accumulated sick leave equal to one-half of the unused days, not exceeding \$15,000. Upon termination, an employee is reimbursed for accumulated vacation pay. Accumulated vacation and accumulated sick leave are estimated to be immaterial by the management of the Commission.

Total memorandum only columns-

Total memorandum only columns are presented for additional analysis and are not intended to present consolidated financial information for the Commission.

(2) Annuity contracts:

The Commission purchases annuity contracts from insurance companies to fund its liability for obligations. An annuity contract represents an obligation by an insurance company to provide a fixed series of payments over a specified period. 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 rating from A.M. Best & Co., a private rating agency, of at least "A+." However, due to the long-term nature of these contracts, the credit quality of the issuer is subject to change. At June 30, 1994, the Commission held annuity contracts totaling \$993,648,851 issued through thirteen insurance companies. A significant portion of the Commission's investment in annuity contracts at such date is concentrated among five companies.

Mutual Benefit Life and Capitol Life Insurance Company, with whom the Commission has \$19,333,009 and 15,612,403 respectively, outstanding in annuity contracts as of June 30, 1994, have been placed in temporary rehabilitation by their respective regulatory authorities. The management of Mutual Benefit Life has stated that they will continue to make all annuity payments in full. Management of the Commission does not believe that the status of Mutual Benefit Life or Capitol Life Insurance Company will have a significant impact on the fair value of its annuity contracts or the financial position or results of operations of the Commission.

The estimated fair value of annuity contracts approximates the carrying value reflected in the accompanying balance sheets as of June 30, 1994. 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 lawsuits 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 does not expect that these matters will have a material adverse effect on the financial position or results of operations of the Commission.

(4) Commitments and contingencies:

The Commission leases certain office facilities under noncancellable lease agreements expiring through 2010.

Future minimum lease payments are as follows:

1995	\$ 355,000
1996	96,000
1997	96,000
1998	96,000
1999	96,000
Thereafter	1,105,000

Rent expense in 1994 and 1993 was \$953,300 and \$1,003,740, respectively.

"WHERE THE MONEY GOES"

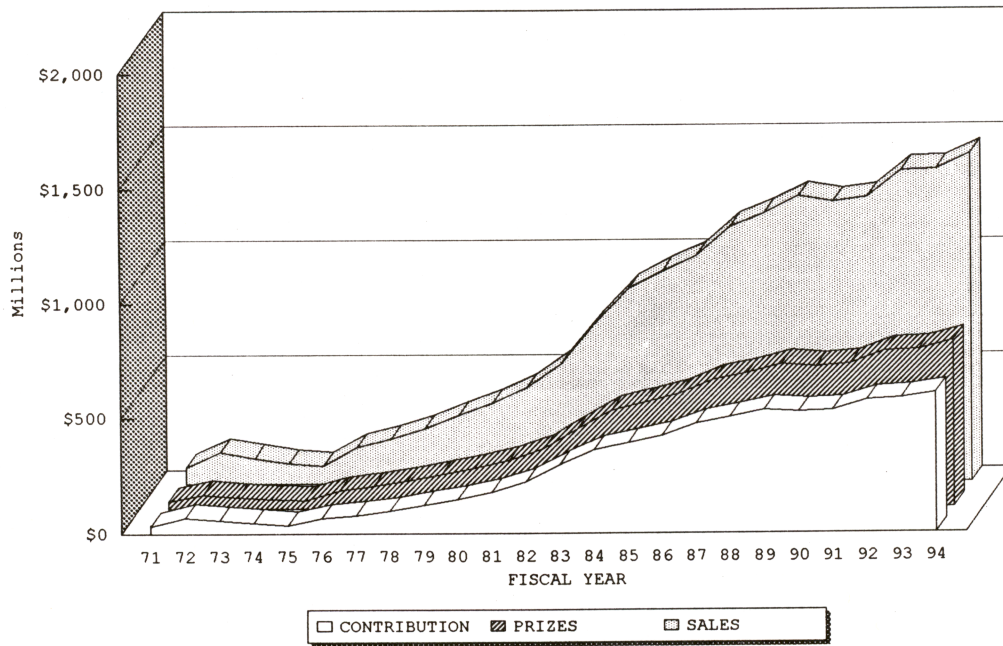
(Schedule Not Covered by Report of Independent Public Accountants)



State of New Jersey
 Programs Supported by State Lottery Resources
 For Fiscal Year 1994

<u>Programs:</u>	<u>Amounts:</u>	<u>Programs:</u>	<u>Amounts:</u>
DEPARTMENT OF CORRECTIONS		DEPARTMENT OF HIGHER EDUCATION	
Institutional Control, Supervision & Rehabilitation:		Aid To County Colleges For Operational Costs	110,337,000
Adult Institutions	\$93,858,000	Aid To Independent Colleges And Universities	21,020,000
Youth And Juvenile Institutions	34,033,000	Opportunity Program Grants	16,568,000
Institutional Care, Treatment & Rehabilitation:		Supplementary Education Program Grants	10,500,000
Adult Institutions	40,130,000	Edward J. Blaustein Dist. Scholars Program	3,851,000
Youth And Juvenile Institutions	13,466,000	Garden State Scholarship	2,094,000
Maintenance Of Physical Plant	17,142,000	Veterinary Medicine Education	1,415,000
DEPARTMENT OF EDUCATION		Governor's School	974,000
Non-Public School Aid	65,562,000	Basic Skills Assessment Program	801,000
Marie Katzenbach School For The Deaf	7,611,000	Learning Disabled Program	713,000
School Nutrition	6,564,000	Schools Of Professional Nursing	416,000
Good Starts	5,473,000	Womens Chair Studies at Douglas College	75,000
Math / Science Initiative	750,000	Small Business Entrepreneurship at Rutgers	65,000
Governors Scholars Program	634,000	DEPARTMENT OF HUMAN SERVICES	
Statewide Testing	271,000	Operation Of State Psychiatric Hospitals	70,424,000
New Jersey School For The Arts	106,000	Operation of Centers For Developmentally Disabled	49,313,000
DEPARTMENT OF MILITARY AND VETERANS AFFAIRS			
Veterans Affairs			
Operation Of Homes For Disabled Soldiers	28,604,000		
<hr/>		<hr/>	
		Total	\$602,770,000

NEW JERSEY STATE LOTTERY



ALLOCATION OF REVENUE
Fiscal Years 1971 to 1994

