



**NEW JERSEY STATE LOTTERY COMMISSION**

Financial Statements and  
Management's Discussion and Analysis

June 30, 2003 and 2002

(With Independent Auditors' Report Thereon)

## NEW JERSEY STATE LOTTERY COMMISSION

### Table of Contents

June 30, 2003 and 2002

	<b>Page</b>
Management's Discussion and Analysis	1
Independent Auditors' Report	6
Basic Financial Statements:	
Statements of Net Assets as of June 30, 2003 and 2002	7
Statements of Revenues, Expenses, and Changes in Net Assets for the years ended June 30, 2003 and 2002	8
Statements of Cash Flows for the years ended June 30, 2003 and 2002	9
Notes to Financial Statements	10-13
<b>Schedules</b>	
1 Schedule of Revenues, Expenses, and Changes in Net Assets – Budget and Actual	14
2 Schedules of Instant Game Revenues	15-20
3 Schedules of Administrative Expenses	21

**FINANCIAL HIGHLIGHTS:**

The Lottery's financial position at June 30, 2003 and 2002 consisted of total assets of \$1.214 billion and \$1.242 billion, respectively, and total liabilities of \$1.196 billion and \$1.213 billion, respectively. A substantial portion of the asset and liability numbers is due to the Lottery's annuity investment in prize awards. The total amount invested and due to Lottery winners as future installment payments at June 30, 2003 and 2002 was \$1.039 billion and \$1.111 billion, respectively. Net assets decreased \$11 million in fiscal year 2003 and increased \$21 million in fiscal year 2002 as a result of its operating and nonoperating activities, which are summarized as follows (in millions):

	<u>FY '03</u>	<u>FY '02</u>	<u>FY '01</u>
Total Operating Revenues	\$2,113	\$2,098	\$1,838
Total Operating Expenses	<u>1,361</u>	<u>1,326</u>	<u>1,150</u>
Operating Income	752	772	688
Nonoperating Revenues	<u>2</u>	<u>3</u>	<u>6</u>
Income Before Contributions	754	775	694
Operating Transfers – State contributions	<u>765</u>	<u>754</u>	<u>697</u>
Change in net assets	\$ <u>(11)</u>	\$ <u>21</u>	\$ <u>3</u>

The \$11 million decrease in net assets in fiscal year 2003 is a result of the transfer of unclaimed prize awards, which are restricted to fund either future prizes or state contributions. The \$21 million increase in net assets in fiscal year 2002 was a result of an increase in forfeited prizes.

**FINANCIAL STATEMENTS:**

The Lottery's financial statements include Statements of Net Assets as of June 30, 2003 and 2002, Statements of Revenues, Expenses, and Changes in Net Assets for the years ended June 30, 2003 and 2002, and Statements of Cash Flows for the years ended June 30, 2003 and 2002. The financial statements are prepared in accordance with the accounting principles established by the Governmental Accounting Standards Board (GASB).

**FINANCIAL HIGHLIGHTS:**

The Lottery's financial position at June 30, 2003 and 2002 consisted of total assets of \$1.214 billion and \$1.242 billion, respectively, and total liabilities of \$1.196 billion and \$1.213 billion, respectively. A substantial portion of the asset and liability numbers is due to the Lottery's annuity investment in prize awards. The total amount invested and due to Lottery winners as future installment payments at June 30, 2003 and 2002 was \$1.039 billion and \$1.111 billion, respectively. Net assets decreased \$11 million in fiscal year 2003 and increased \$21 million in fiscal year 2002 as a result of its operating and nonoperating activities, which are summarized as follows (in millions):

	<u>FY '03</u>	<u>FY '02</u>	<u>FY '01</u>
Total Operating Revenues	\$2,113	\$2,098	\$1,838
Total Operating Expenses	<u>1,361</u>	<u>1,326</u>	<u>1,150</u>
Operating Income	752	772	688
Nonoperating Revenues	<u>2</u>	<u>3</u>	<u>6</u>
Income Before Contributions	754	775	694
Operating Transfers – State contributions	<u>765</u>	<u>754</u>	<u>697</u>
Change in net assets	\$ <u>(11)</u>	\$ <u>21</u>	\$ <u>3</u>

The \$11 million decrease in net assets in fiscal year 2003 is a result of the transfer of unclaimed prize awards, which are restricted to fund either future prizes or state contributions. The \$21 million increase in net assets in fiscal year 2002 was a result of an increase in forfeited prizes.

**FINANCIAL STATEMENTS:**

The Lottery's financial statements include Statements of Net Assets as of June 30, 2003 and 2002, Statements of Revenues, Expenses, and Changes in Net Assets for the years ended June 30, 2003 and 2002, and Statements of Cash Flows for the years ended June 30, 2003 and 2002. The financial statements are prepared in accordance with the accounting principles established by the Governmental Accounting Standards Board (GASB).



Statement 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 '03</u>	<u>FY '02</u>	<u>FY '01</u>
Current Assets	\$ 340	\$ 297	\$ 321
Long Term Annuity Investments	<u>874</u>	<u>945</u>	<u>1,005</u>
Total Assets	<u>1,214</u>	<u>1,242</u>	<u>1,326</u>
Current Liabilities	321	267	312
Noncurrent Liabilities	<u>875</u>	<u>946</u>	<u>1,006</u>
Total Liabilities	<u>1,196</u>	<u>1,213</u>	<u>1,318</u>
Restricted Net Assets	15	26	8
Unrestricted Net Assets	<u>3</u>	<u>3</u>	<u>-</u>
Total Net Assets	<u>\$ 18</u>	<u>\$ 29</u>	<u>\$ 8</u>

Current assets consist of cash, 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 \$140 million and \$99 million as of June 30, 2003 and 2002, respectively.

The Lottery funds long term installment prizes with insurance company annuities and United States Treasury securities. The total value of these investments was \$1.04 and \$1.11 billion as of June 30, 2003 and 2002, respectively. The Lottery has annuity investments with thirteen (13) insurance companies. The total market value of the United States Treasury securities was \$25.7 million and \$25.6 million as of June 30, 2003 and 2002, respectively. The annuity prizes due in fiscal years 2005 and beyond totaled \$874 million and represented the noncurrent 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 totaled \$52 million and \$59 million as of June 30, 2003 and 2002, respectively. There is also \$165 million due to annuity winners in the fiscal year 2004.

Noncurrent liabilities represent annuity prizes due in fiscal years 2005 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 '03</u>	<u>FY '02</u>	<u>FY '01</u>
Restricted (Expired Prize Awards)	\$ 15	\$ 26	\$ 8
Unrestricted	<u>3</u>	<u>3</u>	<u>-</u>
Total Net Assets	\$ <u>18</u>	\$ <u>29</u>	\$ <u>8</u>

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

Statement 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 years ended June 30:

	<u>FY '03</u>	<u>FY '02</u>	<u>FY '01</u>
Ticket Sales	\$2,074	\$2,068	\$1,807
Forfeited Prizes	38	29	29
Miscellaneous Income	<u>1</u>	<u>1</u>	<u>2</u>
Total Operating Revenues	<u>2,113</u>	<u>2,098</u>	<u>1,838</u>
Prize Awards	1,171	1,145	995
Administrative Expenses	22	23	18
Agent Commissions	115	113	99
Vendor Fees	40	38	31
Network Fees	<u>13</u>	<u>7</u>	<u>7</u>
Total Operating Expenses	<u>1,361</u>	<u>1,326</u>	<u>1,150</u>
Operating Income	752	772	688
Investment Income	<u>2</u>	<u>3</u>	<u>6</u>
Income Before Contributions	754	775	694
Operating Transfers - State Contributions	<u>765</u>	<u>754</u>	<u>697</u>
Change in Net Assets	\$ <u>(11)</u>	\$ <u>21</u>	\$ <u>(3)</u>

The Lottery awarded over \$1.171 billion in prize awards in fiscal year 2003 and over \$1.144 billion in fiscal year 2002. Over 88 million winning tickets were validated and paid in fiscal year 2003 while over 79 million winning tickets were validated and paid in fiscal year 2002.

Lottery vendors provide critical services to the Lottery including the production, warehousing, distribution and accounting for all lottery tickets. The total compensation paid for lottery vendors and network fees was \$52.5 million in fiscal year 2003 and \$44.9 million in fiscal year 2002.

The Lottery's administrative expenses for fiscal years 2003 and 2002 totaled \$22.3 million and \$22.7 million, respectively. 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. As a result of various sales initiatives, game enhancements and efficient operations, The Lottery contributed over \$765 million, 36.2% of total revenue in fiscal year 2003 and over \$764 million, 36% of total revenue in fiscal year 2002.

#### **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.





Princeton Pike Corporate Center  
P.O. Box 7348  
Princeton, NJ 08543-7348

## 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, 2003 and 2002, 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, 2003 and 2002, 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, 2003 and 2002, 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.

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. Schedules 1 through 3, as listed in the accompanying table of contents, are supplementary information presented for purposes of additional analysis and are 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 19, 2003





## NEW JERSEY STATE LOTTERY COMMISSION

## Statements of Net Assets

June 30, 2003 and 2002

Assets	2003	2002
<b>Current assets:</b>		
Cash	\$ 2,009,197	513,748
Accounts receivable, net of allowance for doubtful accounts of \$150,000 in 2003 and 2002	20,566,151	19,519,004
<b>Investments:</b>		
State of New Jersey cash management fund	140,313,400	99,284,467
Deposit fund contracts - current portion (note 2)	164,801,704	165,708,704
Other assets	11,861,099	12,412,233
<b>Total current assets</b>	<b>339,551,551</b>	<b>297,438,156</b>
<b>Noncurrent assets:</b>		
Investments - deposit fund contracts (note 2)	874,227,407	944,904,514
<b>Total assets</b>	<b>1,213,778,958</b>	<b>1,242,342,670</b>
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	19,432,721	26,819,156
Obligation for unpaid prize awards	52,406,969	59,359,092
Installment prize awards - current portion	164,801,704	165,708,704
Due to State of New Jersey - education and State institutions	84,401,159	15,549,833
<b>Total current liabilities</b>	<b>321,042,553</b>	<b>267,436,785</b>
<b>Noncurrent liabilities:</b>		
Compensated absences	797,047	872,089
Installment prize awards	874,227,407	944,904,514
<b>Total noncurrent liabilities</b>	<b>875,024,454</b>	<b>945,776,603</b>
<b>Total liabilities</b>	<b>1,196,067,007</b>	<b>1,213,213,388</b>
<b>Net Assets</b>		
Restricted for prize awards or contributions for aid to education and State institutions	14,940,417	26,357,748
Unrestricted	2,771,534	2,771,534
<b>Total net assets</b>	<b>\$ 17,711,951</b>	<b>29,129,282</b>

See accompanying notes to financial statements.

**NEW JERSEY STATE LOTTERY COMMISSION**  
**Statements of Revenues, Expenses, and Changes in Net Assets**  
**Years ended June 30, 2003 and 2002**

	<u>2003</u>	<u>2002</u>
Operating revenues:		
Ticket sales:		
Pick 3	\$ 467,606,944	456,301,422
Pick 4	266,086,122	256,008,816
Jersey Cash 5	68,246,486	75,075,460
Pick 6 Lotto	127,165,440	189,870,192
Lotzee	15,937,768	23,720,258
Mega Millions (formerly The Big Game)	229,265,846	293,866,013
Instant games	901,191,951	773,664,707
Sales discounts	(1,676,209)	—
Total ticket sales	<u>2,073,824,348</u>	<u>2,068,506,868</u>
Other revenues:		
Forfeited prize awards	38,517,867	28,842,236
Miscellaneous	661,374	904,236
Total operating revenues	<u>2,113,003,589</u>	<u>2,098,253,340</u>
Operating expenses:		
Prize expense	1,171,456,861	1,144,736,660
Administrative expenses	22,305,736	22,742,189
Commissions – agents	114,820,488	113,440,214
Vendor fees – machine	27,172,113	26,829,089
Vendor fees – instant	12,745,604	10,874,799
Multi-state fees	16,831	51,418
On-line network fees	12,555,061	7,247,920
Total operating expenses	<u>1,361,072,694</u>	<u>1,325,922,289</u>
Operating income	751,930,895	772,331,051
Nonoperating revenues:		
Investment income	2,052,933	3,200,150
Income before contributions	753,983,828	775,531,201
Contributions for aid to education and State institutions	<u>(765,401,159)</u>	<u>(754,549,833)</u>
Change in net assets	(11,417,331)	20,981,368
Net assets, beginning of year	29,129,282	8,147,914
Net assets, end of year	<u>\$ 17,711,951</u>	<u>29,129,282</u>

See accompanying notes to financial statements.

## NEW JERSEY STATE LOTTERY COMMISSION

## Statements of Cash Flows

Years ended June 30, 2003 and 2002

	2003	2002
Cash flows from operating activities:		
Cash flows from current operations:		
Sales to customers	\$ 1,079,567,156	1,155,641,151
Payments for prize awards	(295,827,721)	(330,377,661)
Payments for vendor commissions and fees	(52,809,080)	(47,509,563)
Payments for bond insurance	(452,921)	(483,360)
Payments to suppliers	(26,541,810)	(15,119,193)
Other payments	(43,604)	(43,634)
Cash flows from annuity operations:		
Annuity receipts	168,452,204	169,908,079
Purchases of annuities	(13,276,579)	(25,397,712)
Payments for annuity prizes	(122,046,363)	(122,556,316)
Net cash provided by operating activities	737,021,282	784,061,791
Cash flows from noncapital financing activities:		
Contributions for aid to education and State institutions	(696,549,833)	(816,397,293)
Cash flows from investing activities:		
Purchases of investments - State of NJ Cash Management Fund	(1,037,025,000)	(1,087,455,000)
Sales of investments - State of NJ cash management fund	998,049,000	1,118,893,000
Net cash provided by (used in) investing activities	(38,976,000)	31,438,000
Net increase (decrease) in cash	1,495,449	(897,502)
Cash, beginning of year	513,748	1,411,250
Cash, end of year	\$ 2,009,197	513,748
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 751,930,895	772,331,051
Changes in assets and liabilities:		
Accounts receivable	(1,047,147)	(3,820,541)
Other assets	551,134	(2,469,322)
Investments - deposit fund contracts	71,584,107	61,040,922
Accounts payable and accrued expenses	(7,386,435)	5,860,565
Obligation for unpaid prize awards	(78,536,230)	(48,934,022)
Compensated absences	(75,042)	53,138
Net cash provided by operating activities	\$ 737,021,282	784,061,791

See accompanying notes to financial statements.



## NEW JERSEY STATE LOTTERY COMMISSION

### Notes to Financial Statements

June 30, 2003 and 2002

#### (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*

The Commission prepares its financial statements using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, 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.

##### *Contributions and Prize Awards*

The State Lottery Law requires at least 30% of annual 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, 2003 and 2002 aggregated \$765,401,159 and \$754,549,833, respectively, of which \$84,401,159 and \$15,549,833 was due to the State Treasury at June 30, 2003 and 2002, respectively.

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

##### *Forfeited Prizes*

New Jersey Law requires that prizes not claimed within one year from the date of the drawing are forfeited. 70% of forfeited prizes are to be maintained in a reserve for prize awards and are available to augment future prize awards or, at the discretion of the Executive Director, to augment the Commission's contribution for aid to education and State institutions. The remaining 30% is unrestricted. For the years ended June 30, 2003 and 2002 unclaimed prizes were \$38,517,867 and \$28,842,236, respectively, and are included in other revenues.



## NEW JERSEY STATE LOTTERY COMMISSION

### Notes to Financial Statements

June 30, 2003 and 2002

#### *Revenue Recognition*

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

- "Pick-3", "Pick-4", "Jersey Cash 5", "Pick-6 Lotto", "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.
- Sales discounts are recorded for the sales value of tickets provided to agents at no cost to be used for promotional purposes.

#### *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.

#### *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. During 2003 and 2002, there were no capitalized equipment or inventory purchases.

#### *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 amortization of the present value cost of annuity contracts and U.S. Government securities necessary to satisfy stated prize awards plus any single payment awards.

## NEW JERSEY STATE LOTTERY COMMISSION

### Notes to Financial Statements

June 30, 2003 and 2002

#### *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.

#### **(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, 2003 and 2002, the Commission held annuity contracts totaling \$1,013,311,919 and \$1,110,613,218, respectively, issued through thirteen insurance companies, 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, 2003 and 2002. Fair value has been estimated by discounting future cash flows using the current rates of annuity contracts with similar credit ratings and maturities.

## NEW JERSEY STATE LOTTERY COMMISSION

### Notes to Financial Statements

June 30, 2003 and 2002

#### (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 changes in financial position of the Commission.

#### (4) 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>Amount</u>
Year ending June 30:	
2004	\$ 668,650
2005	278,604

Rent expense for office facilities in 2003 and 2002 was \$874,337 and \$839,649, respectively.



## Schedule 1

## NEW JERSEY STATE LOTTERY COMMISSION

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

Year ended June 30, 2003

	Budget (unaudited)	Actual	Variance favorable (unfavorable)
Operating revenues:			
Ticket sales, all games	\$ 2,077,625,000	2,073,824,348	(3,800,652)
Other revenues:			
Forfeited prize awards	19,388,000	38,517,867	19,129,867
Miscellaneous	1,000,000	661,374	(338,626)
Total operating revenues	2,098,013,000	2,113,003,589	14,990,589
Operating expenses:			
Prize expense	1,156,598,000	1,171,456,861	(14,858,861)
Administrative expenses	23,438,000	22,305,736	1,132,264
Commissions – agents	114,632,702	114,820,488	(187,786)
Vendor fees – machine	26,861,410	27,172,113	(310,703)
Vendor fees – instant	11,357,888	12,745,604	(1,387,716)
Multi-state fees	25,000	16,831	8,169
On-line network fees	7,500,000	12,555,061	(5,055,061)
Total operating expenses	1,340,413,000	1,361,072,694	(20,659,694)
Operating income	757,600,000	751,930,895	(5,669,105)
Nonoperating revenues:			
Investment income	5,400,000	2,052,933	(3,347,067)
Income before contributions	763,000,000	753,983,828	(9,016,172)
Contributions for aid to education and State institutions	(783,000,000)	(765,401,159)	17,598,841
Change in net assets	(20,000,000)	(11,417,331)	8,582,669
Net assets, beginning of year	29,129,282	29,129,282	—
Net assets, end of year	\$ 9,129,282	17,711,951	8,582,669



## Schedule 2

## NEW JERSEY STATE LOTTERY COMMISSION

## Schedules of Instant Game Revenues

Years ended June 30, 2003 and 2002

	2003	2002
Crossword (N)	\$ 42,774,274	—
Crossword (M)	41,917,515	—
Crossword (O)	40,566,918	—
Big Money Spectacular	21,597,214	964,500
Classic Bingo (B)	21,351,144	648,900
Super Blackjack DBL	19,669,305	—
Big Money Spectacular (C)	19,480,086	—
Crossword (L)	19,343,934	22,495,944
Crossword (P)	18,664,596	—
Cash Bonus	18,600,030	—
Win For Life (W)	17,128,518	—
Jacks or Better (C)	16,920,330	—
Pinball Payoff	16,390,730	—
Stud Poker	16,163,355	—
Slingo	15,759,690	—
Lucky Lines	15,721,245	—
Win For Life (X)	15,241,455	—
Sunken Treasure	15,182,418	—
Club Casino	14,882,905	5,784,120
Money Bags	12,681,306	—
Classic Bingo (C)	12,591,384	—
Super 7's (F)	12,436,574	—
Cash In A Flash	12,427,564	—
Red Hot Doubler (B)	12,353,418	—
Win For Life (V)	12,322,116	4,388,706
Holiday Cheer	12,148,100	—
Lucky 8's Bingo	12,102,141	—
Double Doubler	12,027,756	—
Struck By Luck	11,626,118	—
Triple Tripler (B)	11,364,242	—
Dollar Signs	11,224,622	—
Lucky Times 10	11,220,364	—
Winning Combination	11,171,216	—
Progressive Blackjack	10,931,130	—
Lots O' Spots Bingo	10,871,754	5,339,973
Cold Hard Cash	10,532,848	—
Red Hot Doubler (C)	10,345,980	—
Wild Aruba Stud Poker	10,100,470	—
Tabasco Hot Cash	9,669,848	1,440,000
Happy Holidays	9,274,158	—
Solitaire	9,234,333	5,847,369
Hunt For Cash	9,085,362	—
Jingle Bell Bingo	9,082,616	—
Harvest Gold	8,777,692	—
You Struck Gold	8,313,820	9,807,660

## Schedule 2

## NEW JERSEY STATE LOTTERY COMMISSION

## Schedules of Instant Game Revenues

Years ended June 30, 2003 and 2002

	2003	2002
Win For Life (Y)	\$ 736,500	—
Instant Pick 4	633,900	397,680
Rake It In	605,991	7,559,932
Beach Blanket Bingo	527,814	13,590,931
Double Bingo	509,607	15,977,814
Shore Thing	464,088	8,934,256
Let's Make A Deal	345,538	9,858,594
10 Times Lucky	341,634	10,715,392
Every Dream a Jackpot	326,820	5,479,366
Win For Life (U)	307,194	16,497,912
Happy Birthday (A)	296,924	11,324,364
Jacks or Better	222,675	12,168,595
Me & My Money	180,377	7,659,736
Hollywood Squares	176,678	10,900,844
Maui Money	157,710	10,054,178
Sand Treasures	156,878	6,985,990
Garden State Green	120,160	6,003,330
Crossword (K)	116,997	31,939,191
Super Bucks	101,932	11,139,340
Triple Tripler (d)	71,100	—
2001: A Cash Odyssey	56,028	2,781,636
Amazing Adventure	54,300	—
Red Hot Doubler	48,496	8,541,394
Bushel of Clams	46,800	—
Cool Cash Doubler	45,899	8,535,812
Cash Tripler	34,794	9,023,199
Jacks or Better	23,685	16,468,485
Super 7's	16,118	10,625,900
Crossword (J)	11,397	31,690,704
All New Bingo (C)	300	282,734
Baseball Bucks (B)	263	3,187,130
Win For Life (T)	102	16,083,264
7-11-21	—	(304)
\$1,000,000 Stocking	—	37,890
\$5,000 Jackpot	—	(300)
50 Grand	—	(300)
50 Smackers	—	(2)
Abra-Ca-Da-Bra	—	(1,530)
Acc In The Hole	—	(300)
All New Bingo (A)	—	(678)
All New Bingo (B)	—	22,026
Autumn Glory	—	(600)
Bahama Bonus Poker	—	77,454
Baseball Bucks (A)	—	(300)
Betty Boop	—	18,720

## Schedule 2

## NEW JERSEY STATE LOTTERY COMMISSION

## Schedules of Instant Game Revenues

Years ended June 30, 2003 and 2002

	2003	2002
Bingo (B)	\$ —	(166)
Bingo Extra	—	(900)
Birthday Cheer	—	(120)
Blackout Bingo	—	145,050
Blizzard Bucks	—	160,910
Blue Skies and Buttercups	—	(600)
Break The Bank	—	(604)
Caesars Palace	—	22,495
Caribbean Stud Poker	—	(2)
Carnival Cash	—	(605)
Cash Bam Boom	—	(4,964)
Casino Action	—	(2,105)
Cold Cash Doubler	—	(3)
Countdown To The Holidays	—	(1,800)
Crack The Safe	—	(172)
Crazy Aces	—	(694)
Crossword (B)	—	(12)
Crossword (C)	—	(303)
Crossword (D)	—	(303)
Crossword (E)	—	2,400
Crossword (F)	—	5,400
Crossword (G)	—	641,193
Deal Me In	—	(379)
Deuces Wild (B)	—	1,400,914
Double Dare	—	7,793
Double Dollars (C)	—	(606)
Double Down	—	(1,500)
Double Your Luck (A)	—	(540)
Double Your Luck (B)	—	8,070,335
Father's Day (B)	—	(300)
Father's Day (C)	—	(9,108)
Golden Ghost	—	(602)
Happy Birthday (C)	—	67,092
Hearts Are Wild	—	(494)
High 5's	—	157,108
High Roller	—	(900)
Holiday Surprise (A)	—	(1,495)
Holiday Wishes	—	(600)
Jeopardy	—	(2)
Keno	—	654,273
Keys To The Castle	—	(602)
League Night	—	(600)
Louisville Slugger	—	(144)
Lucky 7's Bingo	—	(1,806)
Lucky Eightball	—	(604)

## Schedule 2

## NEW JERSEY STATE LOTTERY COMMISSION

## Schedules of Instant Game Revenues

Years ended June 30, 2003 and 2002

	2003	2002
Red White Blue Shots	\$ (275)	217,860
30th Anniversary	(300)	24,585
3's For The Money	(300)	3,253,160
All New Bingo (D)	(300)	6,562,976
All New Bingo (E)	(300)	10,928,274
Blue Chip Stock	(300)	373,172
Celebrate 30 Years	(300)	487,767
Cool Winnings	(300)	1,266,530
Fat Cat Doubler	(300)	44,569
Golden Lips	(300)	1,578,772
Golf & Cash	(300)	3,771,740
Pharaoh's Fortune	(300)	489,434
Crossword (H)	(342)	23,562,354
Instant Battleship	(549)	2,773,344
Cash Blast	(587)	4,647,884
Crossword (I)	(600)	29,910,675
Green Garden	(600)	2,001,494
Holiday Gift Pack (A)	(600)	12,610
Leprechaun Luck (B)	(600)	614,675
Mardi Gras	(600)	293,840
Wild Cherry Slots	(600)	788,104
Color of Money	(610)	778,122
Double Diamond Slots	(673)	1,922,441
Win For Life (S)	(693)	7,617,522
Sunny Money	(702)	5,646,034
Bridal Bucks	(900)	1,089,686
Pinball Wizard	(900)	970,485
Wild Cash	(906)	11,598,312
Life Styles Rich Famous	(1,050)	10,346,866
Cash Safari	(1,080)	11,132,294
Celebrate 30 Years (B)	(1,200)	1,205,976
Instant Million	(1,200)	7,967,490
Halloween Cash	(1,232)	6,002,048
Gone Fishing	(1,705)	5,437,905
Touchdown (B)	(1,709)	6,023,533
Super Blackjack	(2,525)	9,775,940
Happy Father's Day	(2,557)	2,870,801
Lucky Number Bingo	(2,685)	7,823,175
Raceway Riches	(2,798)	7,057,272
Holiday Wishes	(6,783)	11,869,148
Sales adjustment	(42,501)	(62,703)
<b>Total instant game revenues</b>	<b>\$ 901,191,951</b>	<b>773,664,707</b>