

NEW JERSEY LOTTERY



**Changing
Lives...**



**and
Brightening
Days.**

NEW JERSEY
LOTTERY



2001

ANNUAL REPORT

New Jersey State Lottery



State of New Jersey
 OFFICE OF THE GOVERNOR
 PO BOX 001
 TRENTON NJ 08625-0001

DONALD T. DiFRANCESCO
 Acting Governor

Dear Friends,

Fiscal Year 2001 was another banner year for the New Jersey State Lottery here in the Garden State. From July 2000 through June 2001, the Lottery generated more than \$1.8 billion in total revenues and posted significant individual game sales increases for Pick 6 Lotto: 20.65%, Pick 3: .53%, Pick 4: 1.36% and Instant Games: 13.15%.

In total, the Lottery's performance in FY '01 translates into more than \$697 million in funding for numerous state programs including Community Colleges, the Department of Human Services, the Governor's School, the Department of Military and Veterans Affairs, the Department of School Nutrition and the Marie Katzenbach School for the Deaf.

The New Jersey Lottery's consistent financial strides have a positive impact throughout the Garden State. Lottery sales translate into more prize money for players, higher commissions for retailers and, most importantly, increased funding for important state programs.

I congratulate the staff of the New Jersey Lottery, the 6,000 lottery retailers throughout the state and the players who continue to make the New Jersey Lottery such a great success.

Sincerely,

Donald T. DiFrancesco
 Acting Governor

New Jersey Is An Equal Opportunity Employer



State of New Jersey
 DEPARTMENT OF THE TREASURY
 DIVISION OF STATE LOTTERY
 PO BOX-041
 TRENTON, NEW JERSEY 08625-0041

Donald T. DiFrancesco
 Acting Governor

Tel (609) 599-5800
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Peter R. Lawrence
 Acting State Treasurer

Dear Friends,

As we reflect back on the past year, I am pleased to share with you our successes and triumphs. As in years past, the Lottery was again ranked as one of the largest revenue producing agencies for the state, and our commitment to returning the majority of our proceeds to players and beneficiaries again earned us recognition as one of the most financially sound, and cost-efficient lotteries in North America.

What's more, the Lottery has contributed in excess of \$11.5 billion to State Education and Institutions over its thirty one-year history. In FY'01 alone, the Lottery continued its precedent of giving by paying out more than \$994 million in prizes and contributing \$697 million to support state-funded programs.

Also during the past year, the Lottery was able to prove that, sometimes, change is good. In September 2000, our Pick 6 Lotto game received several enhancements designed to boost game sales, produce higher jackpots for players and create more overall winners. The result was a 20 percent increase in new Pick 6 Lotto game sales in FY '01, with average jackpots increasing to an average of nearly \$15 million, overall prizes increasing by over \$16.2 million, and retailer Pick 6 Lotto commissions reaching \$10 million.

The Lottery's success is a direct reflection of the hard work put forth by our employees and our retailer network. I am indebted to my staff, our network of more than 6,000 retailers and our players because without their dedication none of our successes would be possible. Please join me in celebrating yet another successful year for the Lottery and the State of New Jersey.

Sincerely,

Virginia E. Haines
 Executive Director

New Jersey Is An Equal Opportunity Employer

The New Jersey Lottery Commission



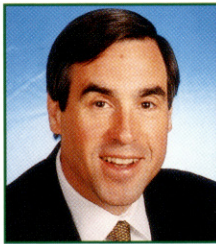
Peter R. Lawrance
Acting State Treasurer



Donald T. DiFrancesco
Acting Governor



Virginia E. Haines
Executive Director



Gregory J. Romano, Esq.
Chairman



James Cicalese
Vice Chairman



Dr. Stephen T. Boswell
Commissioner



Robert Slater
Commissioner



Marvin Schmelzer
Commissioner



Dr. Anthony Caputo
Commissioner

New Jersey State Library

Where the Money Goes

As the state's fourth largest revenue producer, the Lottery's performance in FY '01 translated into more than \$697 million in funding for state programs such as Community Colleges, the Department of Human Services, the Governor's School program, the Department of Military and Veterans Affairs, School Nutrition, and the Marie Katzenbach School for the Deaf.

In addition to providing a significant and consistent funding source for important state programs, the Lottery prides itself on working closely with its retailers to help them establish long-lasting relationships with their players. As a result, in FY '01 more than 6,000 Lottery retailers earned more than \$99 million in commissions – totaling over \$1.5 billion since the Lottery's inception in 1970.

The biggest piece of the pie, however, still goes to Lottery players – nearly 54 percent of gross revenue is returned in the form of cash and prizes. In FY '01, 73 million players won \$994 million in prizes – a 0.5 percent increase from the previous year.

New Jersey still boasts as one of the nation's best ranking lottery in efficiency, spending one percent of its revenues for operation and promotion. Last year, the New Jersey Lottery raised more than \$1.8 billion in revenue, using only \$18 million to cover administrative costs. As a result, more than \$1.6 billion was returned to New Jersey residents in the form of cash, prizes and funding for education and institutions.

State of New Jersey Programs Supported By State Lottery Resources For The Year Ended June 30, 2001

	Amount Expended and/or Encumbered (a)
Department of Agriculture	
School Nutrition	\$ 4,156,000
Department of Education	
Governor's School	851,000
Marie Katzenbach School for the Deaf	2,918,000
Non-Public School Aid	42,005,000
Statewide Assessment Program (Grades 4, 8, 11)	6,770,000
Total Department of Education	52,544,000
Higher Educational Services	
Senior Public Institutions-Operating Aid	89,133,000
Tuition Aid Grants	73,868,000
Aid to County Colleges for Operational Costs	119,771,000
Aid to Independent Colleges and Universities	12,253,000
Coordinated Garden State Scholarship Program	3,368,000
Higher Education Facilities Trust Fund – Debt Service	10,001,000
Higher Education For Special Needs Students	386,000
Opportunity Program Grants	10,634,000
Supplementary Education Program Grants	5,526,000
Veterinary Medicine Education	645,000
Other Higher Educational Services	17,490,000
Total Higher Educational Services	343,075,000
Department of Human Services	
Operation of Centers for Developmentally Disabled	92,216,000
Operation of State Psychiatric Hospitals	122,200,000
Total Department of Human Services	214,416,000
Department of Military and Veterans' Affairs	
Operation of Homes for Disabled Soldiers	21,204,000
Department of Treasury	
School Construction	62,000,000
Total Revenue Realized – GAAP Basis	\$ 697,395,000

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

Peter R. Lawrance
Acting State Treasurer

Now in its third year, the Lottery's participation in the BIG GAME multi-state lottery continues to be a winning experience for everyone in the Garden State. Since joining the game in May 1999, New Jersey has generated \$476 million in sales; returned more than \$234 million to players in prizes; and created an astounding \$25 million in BIG GAME commissions for New Jersey's 6,000 lottery retailers. More importantly, in FY'01 New Jersey's participation in the BIG GAME generated \$80 million for education and institutions.

New Jersey's most recent BIG GAME success story came in June 2001 as the entire Garden State held its breath when the expiration date for an unclaimed \$46 million BIG GAME ticket neared.

A few days after the expiration date had passed, the Lottery dramatically announced that Melvin B. Milligan from Passaic, NJ had come forward to claim the \$46 million jackpot, representing the largest BIG GAME prize in New Jersey history and the third largest jackpot overall in the Garden State.

Mr. Milligan had sent the winning ticket and claim form – via regular mail – to Lottery headquarter after having a retailer validate the tickets on June 7, just two days prior to expiration. The ticket and claim form were received at Lottery headquarters on June 12, and in accordance with Lottery procedure, the ticket and claim form were processed and verified. On Wednesday, June 13, the ticket was announced to be genuine and Mr. Milligan was awarded his prize!

To win the BIG GAME jackpot, players must match five numbers from a pool of 50, plus the "Big Money Ball" from a pool of 36. Including New Jersey, the other member states are: Georgia, Illinois, Maryland, Massachusetts, Michigan and Virginia.

First drawn on May 9, 1980, Pick 6 produced its first millionaire, Manuel Collada of Hillside on May 28, 1981, and has since then remained one of the Lottery's most popular games.

In September 2000, the Lottery implemented several enhancements to the Pick 6 game to create higher jackpots for players and more overall winners. The changes also were intended to increase sales and commissions while generating greater returns for state education and institutions. To that end, the enhanced Pick 6 Lotto game has proved successful, generating sales of \$195 million – an increase of 20% from FY'00.



In February 2001, New Jersey Lottery history was made when James and Eileen Rath of Union County won a \$48.9 million Pick 6 Lotto jackpot, the largest Pick 6 Lotto prize ever awarded in New Jersey Lottery history. The former record was the Pick 6 Lotto jackpot from the October 30, 2000 drawing when a Newark woman won \$46.2 million.

Pick 6 will continue to evolve with players in the coming years. Since the game first went on sale, Pick 6 has generated \$6.7 billion in sales, paid out \$3.3 billion to winners and contributed more than \$2.8 billion to state education and institutions.



Pick 3's success can be attributed to the Lottery's commitment to keeping its games new and exciting through various changes and promotions. In May 2001, the Lottery brought back its Double Draw promotion, which gave players a second chance to win on the same ticket. This promotion was popular among Pick 3 players and resulted in a \$1.5 million increase in sales, while awarding an additional \$3.2 million in prizes. Since the game's inception in 1975, Pick 3 has paid out more than \$4.8 billion in prizes, while returning \$4.1 billion in state funding.



In April 2001, the Lottery launched an instant ticket version of Pick 4, giving players the chance to win up to \$2,500 as well as a free online Pick 4 ticket. An "instant" success, the game generated more than \$1 million during its first full week of sales, becoming the first one-dollar instant game to reach that plateau since the "Deuces Wild" Instant Game was introduced in 1999. In FY'01, Pick 4 returned \$105 to lottery beneficiaries and generated sales totaling \$239 million – an increase of about 1.4 percent from last fiscal year. Since its inception, Pick 4 sales have totaled \$4.5 billion, returning more than \$1.9 billion to state education and institutions.



Instant games continue to play a vital role in generating funds for state programs and remain one of the most popular Lottery products among players. In FY '01, the Lottery introduced 63 games with prizes ranging from \$2 to \$1 million and a myriad of special non-cash prizes.

Aside from the traditional instant games, the Lottery offered seasonal games and special promotional games to keep its stock of instant tickets fresh and exciting. One of the more popular Instant Games, *Win for Life*, since 1996 has offered players a chance to win \$1,000 a week for life. In FY'01, Instant Game sales totaled \$675 million, surpassing sales from FY'00 by 13%. Instant Games contributed \$191 million to support state education and institutions, while at the same time returning \$427 million back to lottery players in cash and prizes.



Jersey Cash 5 gives players a chance to win the big money every weekday – up to \$50,000 cash for matching all five numbers drawn – and players need only match three or four numbers from a pool of 38 to win other cash prizes. In FY'01, the game generated \$67 million in sales, \$33 million in prizes and returned \$30 million to state education and institutions. Since its inception, Jersey Cash 5 has totaled nearly \$806 million in sales and has contributed more than \$338.5 million to state funding.



In 1998, the New Jersey Lottery became the first to create an online ticket game that played like an instant. The result was LOTZEE. Like an instant game, LOTZEE offers players multiple ways to win on every ticket, and like an online game, players can select their own lucky numbers for a more personalized wager. In FY'01, LOTZEE generated more than \$24 million in sales, while awarding \$11 million in prizes. Furthermore, LOTZEE returned in excess of \$11 million to state education and institutions, totaling more than \$41 million since its inception.

Aside from its partnerships with more than six thousand businesses across the state, the Lottery also takes a personal stake in the community. Throughout FY'01, the Lottery and its employees reaffirmed their commitment to the community through charitable donations and lifesaving gifts.

During the 2000 holiday season the Lottery held a food and clothing drive for underprivileged Garden State residents. Lottery employees gladly donated more than 300 pounds of food, clothing and other non-perishable items to a local charity. An unprecedented showing of goodwill, this contribution by Lottery employees helped numerous families in need enjoy a more cheerful holiday season.

Lottery employees also helped give the gift of life when they participated in the Lottery's First Annual Blood Drive. In association with the Community Blood Council of New Jersey, more than 25 Lottery employees turned out to donate 25 pints of blood. This contribution by Lottery employees helped sustain New Jersey's volatile blood supply, and demonstrated their concern for the well-being of all New Jerseyans.



What's more, the Lottery continued its longstanding relationship with New Jersey's disabled citizens. For over a decade, the Lottery has purchased promotional goods and mail related services from centers employing disabled adults. The assistance of these organizations has been instrumental in helping the Lottery keep its retailer network informed of game changes and new innovations within the lottery industry. A crucial part of the Lottery's success, these groups have gained an increased sense of personal independence while providing a valuable service.

The Lottery and its employees have maintained a system of caring and community commitment for over thirty-one years. With the arrival of FY'02, the Lottery and its employees plan to continue this tradition with increased drives and benefits, proving again our commitment to building a stronger community.



New Jersey continues to serve as one of the nation's most successful lotteries by pushing the limits of technology and innovation to benefit its players and retailers. The Lottery's player website (<http://www.state.nj.us/lottery>) and retailer website (<http://my.state.nj.us/>) are each examples of the Lottery's commitment to the sharing of information for the benefit of everyone.

The player website currently offers numerous features, including: access to individual game information and rules, past and present winning numbers and an electronic copy of the "Where The Money Goes" brochure. Furthermore, in FY'01 the Lottery enhanced its website to include a subscriber service that provides players with free daily game results and jackpot amounts via e-mail.

Independent Auditors' Report



New Jersey Headquarters
150 John F. Kennedy Parkway
Short Hills, NJ 07078

We have audited the accompanying balance sheet of the New Jersey State Lottery Commission (the "Commission") as of June 30, 2001, and the related statement of revenues, expenditures and contributions and changes in fund balance for the year 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 audit.

We conducted our audit 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 audit provides 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 Commission as of June 30, 2001, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The combined statements of revenues, expenditures and contributions and changes in fund balance for the cumulative 342 months ended June 30, 1999, and the cumulative 366 months ended June 30, 2001, were not audited by us and accordingly, we do not express an opinion on them.

KPMG LLP

September 14, 2001

New Jersey State Lottery Balance Sheet June 30, 2001 With Comparative Totals for 2000

	Special Revenue Fund	Agency Fund	Administrative Fund	Total (Memorandum Only)	
				2001	2000
ASSETS					
Cash	\$ 1,411,000	\$ -	\$ 250	\$ 1,411,250	\$ 2,879,450
Accounts Receivable, Net	15,698,463	-	-	15,698,463	12,865,671
Interfund Receivable - Administration	-	-	5,119,193	5,119,193	6,664,680
Investments:					
Deposit Fund Contracts State Of New Jersey	-	1,171,654,140	-	1,171,654,140	1,192,842,062
Cash Management Fund	127,522,317	-	-	127,522,317	152,375,179
Prepaid Expenses and Other Assets	9,942,911	-	-	9,942,911	8,719,977
Total Assets	\$ 154,574,691	\$ 1,171,654,140	\$ 5,119,443	\$ 1,331,348,274	\$ 1,376,347,019
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts Payable and Accrued Expenses	\$ 16,330,832	\$ -	\$ 4,627,759	\$ 20,958,591	\$ 32,034,725
Obligation for Unpaid Prize Awards	47,252,192	-	-	47,252,192	64,499,883
Due To State Of New Jersey - Education and Institutions	77,397,293	-	-	77,397,293	67,928,948
Interfund Payable - Administration	5,119,193	-	-	5,119,193	6,664,680
Installment Prize Obligations	-	1,171,654,140	-	1,171,654,140	1,192,842,062
Total Liabilities	146,099,510	1,171,654,140	4,627,759	1,322,381,409	1,363,970,298
Fund Balances:					
Reserved For Encumbrances	-	-	491,684	491,684	1,728,661
Reserved For Prize Awards	8,225,181	-	-	8,225,181	10,398,060
Reserved For Bond Insurance	250,000	-	-	250,000	250,000
Total Fund Balance	8,475,181	-	491,684	8,966,865	12,376,721
Total Liabilities And Fund Balance	\$ 154,574,691	\$ 1,171,654,140	\$ 5,119,443	\$ 1,331,348,274	\$ 1,376,347,019

See accompanying notes to financial statements

New Jersey State Lottery Comparative Statements

Combined Statements of Revenues, Expenditures, Contributions, and Changes in Fund Balance



	Cumulative 342 Months *Ended June 30, 1999	12 Months Ended June 30, 2000	12 Months Ended June 30, 2001	Cumulative 366 Months *Ended June 30, 2001	%
REVENUES:					
GROSS SALES	\$ 24,284,286,786	\$ 1,838,840,627	\$ 1,806,694,611	\$ 27,929,822,024	98.52%
FORFEITED PRIZES	282,742,817	17,009,727	28,611,726	328,364,270	1.16%
INTEREST INCOME	67,539,350	5,428,009	6,540,964	79,508,323	0.28%
MISCELLANEOUS INCOME	8,128,220	1,036,638	2,484,374	11,649,232	0.04%
TOTAL REVENUES	24,642,697,173	1,862,315,001	1,844,331,675	28,349,343,849	100.00%
EXPENDITURES:					
ALLOCATION FOR PRIZE AWARDS	12,317,574,550	989,808,601	994,764,296	14,302,147,447	50.45%
COMMISSION TO AGENTS & BANKS	1,325,612,733	100,355,733	99,305,191	1,525,273,657	5.38%
OPERATING EXPENDITURES	359,374,405	16,680,397	18,631,796	394,686,598	1.39%
VENDOR FEES	403,646,327	29,330,829	30,807,278	463,784,434	1.64%
COURIER COLLECTION FEE	12,235,328	-	-	12,235,328	0.04%
ON LINE NETWORK FEES	28,873,073	6,703,067	6,816,802	42,392,942	0.15%
START UP COSTS	686,137	-	-	686,137	-
MULTI STATE FEES	-	25,270	18,875	44,145	-
PROVISION FOR DOUBTFUL ACCOUNTS	299,896	-	-	299,896	-
TOTAL EXPENDITURES	14,448,302,449	1,142,903,897	1,150,344,238	16,741,550,584	59.05%
CONTRIBUTIONS FOR AID TO EDUCATION AND STATE INSTITUTIONS	10,181,500,159	719,928,948	697,397,293	11,598,826,400	40.91%
TOTAL EXPENDITURES AND CONTRIBUTIONS	24,629,802,608	1,862,832,845	1,847,741,531	28,340,376,984	99.96%
REVENUES OVER (UNDER) EXPENDITURES AND CONTRIBUTIONS	12,894,565	(517,844)	(3,409,856)	8,966,865	0.04%
FUND BALANCE, BEGINNING OF PERIOD	-	12,894,565	12,376,721	-	-
FUND BALANCE, END OF PERIOD	\$ 12,894,565	\$ 12,376,721	\$ 8,966,865	\$ 8,966,865	0.04%

See accompanying notes to financial statements.

*Figures not covered by report of independent public accountants.

New Jersey State Library

Notes to Financial Statements

June 30, 2001

(1) Organization and summary of significant accounting practices

Organization

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 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.

Summary of Significant Accounting Policies

The following is a summary of the significant accounting practices of the commission.

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.

Fund Accounting

The various funds of the Commission are included within the financial reporting entity of the State of New Jersey. Within the general purpose financial statements of the State of New Jersey, the Commission is accounted for within three funds. The following funds are included in the Commission's financial statements.

Special Revenue Fund

This fund is established to account for revenues and expenditures of lottery games which are 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 expenditures for administration of the Commission which are 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 year ended June 30, 2001, the contribution for administrative expenses and encumbrance obligation aggregated \$18,474,821 of which \$5,119,193 was payable to the State Treasury at June 30, 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 year ended June 30, 2001 aggregated \$697,397,293 of which \$77,397,293 was due to the State Treasury at June 30, 2001.

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 for aid to education and State institutions. For the year ended June 30, 2001 unclaimed prizes aggregating \$29,133,530 were forfeited of which \$8,611,726 is included in other income for the year ended June 30, 2001. During June 2001, the Executive Director authorized the use of

\$20,000,000 in reserve for prize awards funds to be used for additional contributions for aid to education and State institutions, and is included in other income for the year ended June 30, 2001. At June 30, 2001, accounts payable and accrued expenses include \$3,726,273 related to forfeited prizes.

Revenue recognition

The "Big Game" is a multi-state lottery which offers a minimum jackpot of \$5 million and nine ways to win. Other member states include Georgia, Illinois, Maryland, Massachusetts, Michigan and Virginia. To play "The Big Game" players chose five numbers from a pool of 50 and one number, "The Big Money Ball" from a pool of 36. To win the top prize, players must match all five numbers and "The Big Money Ball" number. "The Big Game" drawings take place in Atlanta, Georgia every Tuesday and Friday at 11:00 p.m.

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

- "Pick 3", "Pick 4", "Pick 6 Lotto", "Jersey Cash 5", "Lotzee" and "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. 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 fair value. The State 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

Equipment and inventory of the Commission are recorded within the general purpose financial statements of the State of New Jersey in the General Fixed Asset Account Group. The Commission follows the policy of not capitalizing equipment and inventory purchases. Items of this nature are recognized as expenditures by the Commission in the statement of revenues, expenditures and contributions and changes in fund balance during the period in which they are acquired.

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 and U.S. Government Securities to fund its liability for installment prize obligations. Amounts allocated to prize awards reflect the anticipated cost of annuity contracts and U.S. Government Securities necessary to satisfy stated prize awards plus any single payment awards.

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 and are not recorded in the accompanying financial statements.

Total memorandum only columns

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates that effect the recorded amount 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 expenditures during the reporting period. Actual results could differ from those estimates.

(2) Annuity contracts

The Commission purchases annuity contracts from insurance companies and U.S. Government Securities to fund its liability for future installment prize 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 claims payment rating from Standard and Poor's 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, 2001, the Commission held annuity contracts totaling \$1,171,654,140 issued through thirteen insurance companies. The projected future cost of installment prize obligations amount to \$1,762,745,080 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:

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

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

(4) Commitments

(a) Contractual arrangements

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

(b) Operating Leases

The Commission leases certain office facilities under non-cancelable lease agreements expiring through 2005.

Future minimum lease payments are as follows:

June 30	Amount
2002	668,650
2003	668,650
2004	668,650
2005	278,604

Rent expense for office facilities in 2001 was \$857,015.



NEW JERSEY
LOTTERY



2001

ANNUAL REPORT

Donald T. DiFrancesco, Acting Governor
Benefits Education and Institutions
Play responsibly. If you or someone you know has a gambling problem, call 1-800-GAMBLER.®

Virginia E. Haines, Executive Director
www.state.nj.us/lottery