

THE NEW JERSEY LOTTERY

Giving New Jersey a Winning Edge

1999

ANNUAL REPORT

NEW JERSEY
LOTTERY





Virginia E. Haines
Executive Director



State of New Jersey
DEPARTMENT OF THE TREASURY
DIVISION OF STATE LOTTERY
PO Box-041
TRENTON NJ 08625-0041

Letter from the Executive Director

Dear Friends:

The Fiscal Year 1999 brought about a lot of excitement and change to the New Jersey Lottery. On September 20, 1998, the Pick 6 Annuity prize payment was expanded from 20 years to 25 years. A few months later, as a response to player requests, our popular Jersey Cash 5 game was moved from three draw nights a week to five. The big excitement, however, came in late May when New Jersey joined a multi-state lottery, the BIG GAME. In just a short five-week period, the BIG GAME earned nearly \$11 million in sales and raised over \$4.6 million for new school construction. During FY '99, our instant ticket product line was expanded to include 47 innovative new games and sales increased over \$10 million from FY '98. As always, we continued to try to introduce fresh and entertaining products that would fulfill our Lottery player and agent needs.

One key to the Lottery's success is the durable partnerships we forged with our Lottery agent community. We continued to strengthen our relationships by providing sales support, such as training seminars. This year, we improved upon and expanded our training program for new Lottery agents and also produced a sales training video that was distributed to all of our agents throughout the Garden State.

The New Jersey Lottery is one of the most cost-efficient lotteries in the United States, spending less than one percent of its revenues to operate and promote its business. As the state's fourth largest revenue producer, the Lottery raised nearly \$1.7 billion in revenue for FY '99. Of that amount, less than \$16 million was used for operating expenditures, allowing the Lottery to contribute over \$652 million to help fund education and institutions. In fact, since its inception 29 years ago, the New Jersey Lottery has contributed \$10 billion to educational programs and institutions within the state.

Finally, we spent the last weeks of FY '99 testing and updating our computer systems to prepare for the millennium. Here at the New Jersey Lottery, we are excited about the future, not just for the Lottery, but for all of those in the State of New Jersey who benefit from our contributions.

Sincerely,

Virginia E. Haines
Executive Director





Christie Whitman
Governor



STATE OF NEW JERSEY
OFFICE OF THE GOVERNOR
PO BOX 001
TRENTON
08625

Letter from the Governor

Dear Friends:

In 1999, the New Jersey Lottery again gave our state the "winning edge." Generating nearly \$1.7 billion in revenue for the state, the Lottery helped support worthwhile programs for the many faces of our one family. From the children who receive a healthy school lunch to the disabled veterans we care for in our veterans' homes, Lottery proceeds are making New Jersey a better place in which to live, work, and raise a family.

Over the past year, the Lottery continued its tradition of offering new and exciting opportunities to its players while enhancing the attraction of long-time favorites. Most notably, we joined the multi-state BIG GAME in May 1999, bringing to New Jersey bigger jackpots more often than ever before. By December, we had our first Grand Prize winner – Carlos Toscano of Lakewood – who was the sole winner of a \$13 million jackpot. I was delighted to present Mr. Toscano with his check in a ceremony at the State House in December.

Over the past 29 years, the New Jersey Lottery has contributed more than \$10 billion to education and institutions, while paying out more than \$12 billion in prizes to Lottery players. As the Lottery begins its thirtieth year, I know it will continue to give New Jersey the winning edge.

Yours sincerely,

Christine Todd Whitman
Governor

New Jersey State Library



WHERE DOES THE MONEY GO?

**The question is where
doesn't it go? Every day,
New Jersey residents
from different walks of
life, socioeconomic
levels, ages, and races
benefit from the proceeds
contributed by the
New Jersey Lottery.**

Every time a Lottery ticket is bought, players are providing support to underprivileged children, scholarships for college students, homes for disabled veterans and developmentally disabled individuals, and treatment programs for troubled youths in New Jersey.

During Fiscal Year 1999, thirty-nine cents (39¢) of every dollar spent on the Lottery was returned to the state to support education and institutions. As a result, taxpayers saved over \$600 million last year. In FY '99, the New Jersey Lottery returned more than \$652 million to the state to fund educational programs and state-run institutions. Since its inception over 29 years ago, the Lottery has contributed \$10 billion to programs that benefit millions of New Jersey residents.

The New Jersey Lottery is proud of the partnerships it has established with over 6,000 small business owners throughout the state.

The New Jersey Lottery works closely with its agents, providing them the opportunity to establish lasting relationships with their customers and to increase their overall retail profits. During FY '99, agents earned over \$90 million in commissions.

In FY '99, the Lottery awarded approximately 58 million winners with an unprecedented \$888 million in prizes. The New Jersey Lottery truly makes everyone in the Garden State a winner.





EVERYBODY'S IN ON IT

On May 26, 1999, New Jersey Lottery took a BIG step and joined the BIG GAME, a multi-state mega jackpot lottery comprised of six other member states.

This new, computerized game joined our already popular lineup of Pick 3, Pick 4, Jersey Cash 5, Pick 6 Lotto, and LOTZEE. The first drawing was held on Friday, May 28.

The decision to join the BIG GAME was based on one thing – our players and agents had steadfastly asked for it. Multi-state lotteries generally provide larger jackpots that are attractive to lottery players.

The BIG GAME offers a minimum jackpot of \$5 million, with nine ways to win and overall odds of 1 in 31. Other member states include: Georgia, Illinois, Maryland, Massachusetts, Michigan, and Virginia. To play the BIG GAME, players choose 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." The odds of winning the top prize are 1 in 76 million.

The BIG GAME provides our players a chance to win big prizes and our agents the opportunity to earn increased sales commissions. However, the biggest winners are New Jersey school children. Proceeds from the BIG GAME are designated for one specific cause – to fund **school construction** projects throughout New Jersey. Every BIG GAME ticket bought helps provide New Jersey students with the educational facilities they need to succeed. In less than six weeks, total sales for the new game were almost \$11 million, contributing nearly \$4.6 million towards school construction.

BIG GAME Revenue ...School Construction

INSTANT TICKETS



For the second year in a row, instant tickets were the number one selling New Jersey Lottery product. In Fiscal Year 1999, the instant ticket product line increased by approximately \$10 million, meeting the sales projections for the year.

During Fiscal Year 1999, the New Jersey Lottery increased the number of new Instant Game introductions to 47. Anywhere from 16 to 20 Instant Games at any time were available in the marketplace, providing a variety of choices for the consumer.

The Lottery's perpetual games, "Bingo" and "Win For Life," continued to be favorites among instant ticket players. In fact, due to the growing popularity of "Bingo," the New Jersey Lottery expanded the line by introducing a \$3 Bingo ticket, "Wild Bingo," offering prizes up to \$20,000.

"New Jersey's Winning Ticket" game, with a play-at-home bonus feature, was a huge success, creating awareness for our "where the money goes" message. Over 200,000 players entered the Benefits Education and Institutions Grand Prize Drawing.

Players learned where the money goes by matching the beneficiary appearing on their tickets with the beneficiary featured on the New Jersey Lottery nightly televised drawings.

And the holiday season also had its share of instant ticket surprises. Due to the success of previous years, the Lottery offered a \$10 ticket, "Holiday Wishes," for FY '99. In addition to the \$10 game, the Lottery offered a \$5 Instant Game: "12 Ways to Celebrate the Holidays." The ticket was actually a greeting card with a play area for each of the 12 days of Christmas, giving the player 12 opportunities to win.

Instant ticket sales alone contributed over \$162 million to state education and institutions in FY '99. In addition, over \$322 million was paid out in prizes to instant winners.



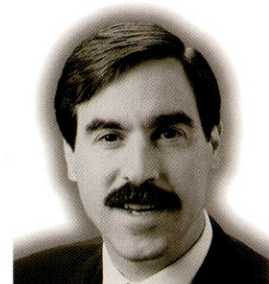
Roland M. Machold, Treasurer

Roland M. Machold, of Princeton, serves as State Treasurer and is a member of the Lottery Commission. Among his major duties is managing the State's budget and overseeing the Taxation Division. In June 1998, Machold retired after 23 years with the Division of Investment, serving as Deputy Director and Director. He was awarded the Stoddard Award in 1997, presented by the National Association of State Investment Officers for outstanding public service.



Dr. Stephen T. Boswell

Dr. Stephen T. Boswell, of Wyckoff, was appointed to the Lottery Commission in 1994 and reappointed in 1999. He was elected to the post of Vice-Chairman in 1995 and served as Chairman from 1996 to 1999. He is the President and CEO of Boswell Engineering in South Hackensack.



Gregory J. Romano, Esq.

Gregory J. Romano, of Basking Ridge, was elected Vice-Chairman of the New Jersey Lottery Commission. Romano was appointed to the Lottery Commission in 1994 by Governor Christie Whitman. He is General Counsel and Secretary of Custom Risk Solutions, LLC, in Princeton, an insurance alternative market underwriting company which is a joint venture of Aon Corporation, Royal & Sun Alliance Ltd., and ACE INA, Inc.



James Cicalese

James Cicalese, of Point Pleasant Beach, a 17-year veteran of the Lottery Commission, was appointed in 1982. He served five terms as Chairman and three terms as Vice-Chairman. Cicalese is the former Director of the Ocean County Department of Insurance & Risk Management.



Dr. Anthony Caputo

Dr. Anthony Caputo, of South Orange, was appointed to the Lottery Commission in 1996 by Governor Christie Whitman. He is a Pediatric Ophthalmologist at Columbus Hospital, where he serves as the Chief of Ophthalmology at the Newark Eye and Ear Infirmary, and the Director of the Children's Eye Care Center of New Jersey.



David Goldfarb

David Goldfarb, of Verona, was appointed to the Lottery Commission in 1991. He served two terms as Vice-Chairman. In 1996, Goldfarb retired after 22 years as the Executive Director and Public Affairs Representative for the Tobacco and Candy Distributors of New Jersey. He currently represents the New Jersey Taxi and Limousine industry and the New Jersey Marketing Wholesale Association.



Robert Slater

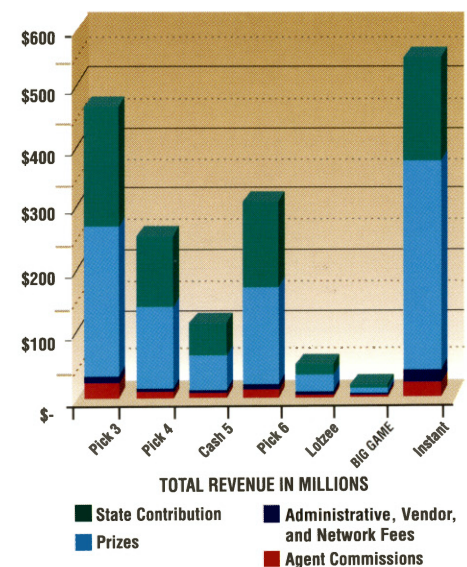
Robert Slater, of Short Hills, was appointed to the Lottery Commission in 1995 by Governor Christie Whitman. He is the cofounder and former co-CEO of Channel Home Centers and Chairman of the Board of LRF Slater Companies, Inc., a real estate development company in Livingston. He also served as a Commissioner for New Jersey Network and the Essex County Improvement Authority.

State of New Jersey Programs Supported by State Lottery Resources for the Fiscal Year Ended June 30, 1999

(Amounts Expressed in Thousands)

Amount Funded

Department of Agriculture	
School Nutrition	\$7,004
Department of Education	
Governor's School	955
Marie Katzenbach School for the Deaf	2,547
Non-Public School Aid	74,095
Statewide Assessment Program (Grades 4, 8, 11)	9,430
Total Department of Education	\$87,027
Higher Educational Services	
Aid to County Colleges	120,186
Aid to Independent Colleges and Universities	20,245
Coordinated Garden State Scholarships Program	7,368
Higher Education Facilities Trust Fund — DS	15,751
Higher Education for Special Needs Students	712
Opportunity Program Grants	20,410
Supplementary Education Program Grants	11,000
Veterinary Medicine Education	1,097
Total Higher Educational Services	\$196,769
Department of Corrections	
Institutional Control and Supervision — Adult	52,745
Institutional Control and Supervision — Youth	13,202
Institutional Care and Treatment — Adult	24,249
Institutional Care and Treatment — Youth	5,891
Maintenance of Physical Plant	9,045
Total Department of Corrections	\$105,132
Department of Law and Public Safety	
Institutional Control and Supervision — Youth	4,893
Institutional Care and Treatment — Youth	1,163
Maintenance of Physical Plant	770
Total Department of Law and Public Safety	\$6,826
Department of Human Services	
Operation of Centers for Developmentally Disabled	116,308
Operation of State Psychiatric Hospitals	107,130
Total Department of Human Services	\$223,438
Department of Military and Veterans' Affairs	
Operation of Homes for Disabled Soldiers	\$21,553
Department of Treasury	
Pending School Construction (b)	\$4,594
Total Revenue Realized — GAAP Basis	\$652,343



(a) The amount of State Lottery funding in the programs designated above only represents a portion of its total state funding. The balance of the appropriation for the departments is funded by the General Fund.

(b) Proceeds from the BIG GAME are designated for pending school construction programs.

Roland M. Machold
State Treasurer

New Jersey State Library

Independent Auditors' Report



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

Commissioners of the New Jersey State Lottery Commission:

We have audited the accompanying balance sheet of the New Jersey State Lottery Commission (the "Commission") as of June 30, 1999, 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 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 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, 1999, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

The combined statements of revenues, expenditures, and contributions and changes in fund balance for the cumulative 318 months ended June 30, 1997, and the cumulative 342 months ended June 30, 1999, were not audited by us and, accordingly, we do not express an opinion on them.

KPMG Peat Marwick LLP

September 17, 1999

New Jersey State Lottery Balance Sheet June 30, 1999

(with Comparative Totals for 1998)

	Special Revenue Fund	Agency Fund	Administrative Fund	Total (Memorandum Only)	
				1999	1998
Assets					
Cash	\$ 1,816,398	\$ —	\$ 250	\$ 1,816,648	\$ 1,066,630
Accounts Receivable, Net (note 1)	25,282,060	—	—	25,282,060	20,720,919
Interfund Receivable — Administration	—	—	5,521,770	5,521,770	7,570,651
Investments:					
Deposit Fund Contracts (note 2)	—	1,234,711,063	—	1,234,711,063	1,254,572,668
State of New Jersey Cash Management Fund	96,134,070	—	—	96,134,070	89,332,644
Deferred Expenses and Other Assets	7,641,321	—	—	7,641,321	8,078,202
Total Assets	\$ 130,873,849	\$ 1,234,711,063	\$ 5,522,020	\$ 1,371,106,932	\$ 1,381,341,714
Liabilities and Fund Balances					
Liabilities:					
Accounts Payable and Accrued Liabilities	\$ 14,927,681	\$ —	\$ 4,573,392	\$ 19,501,073	\$ 18,537,826
Obligation for Unpaid Prize Awards	33,135,752	—	—	33,135,752	31,456,108
Due to State of New Jersey — Education and Institutions	65,342,709	—	—	65,342,709	58,829,785
Interfund Payable — Administration	5,521,770	—	—	5,521,770	7,570,651
Installment Prize Obligations	—	1,234,711,063	—	1,234,711,063	1,254,572,668
Total Liabilities	118,927,912	1,234,711,063	4,573,392	1,358,212,367	1,370,967,038
Fund Balances:					
Reserve for Encumbrances	—	—	948,628	948,628	363,061
Reserve for Prize Awards	11,695,937	—	—	11,695,937	9,761,615
Reserve for Bond Insurance	250,000	—	—	250,000	250,000
Total Fund Balances	11,945,937	—	948,628	12,894,565	10,374,676
Total Liabilities and Fund Balances	\$ 130,873,849	\$ 1,234,711,063	\$ 5,522,020	\$ 1,371,106,932	\$ 1,381,341,714

See accompanying notes to financial statements.

New Jersey State Lottery Comparative Statements

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

	Cumulative 318 Months *Ended June 30, 1997	12 Months Ended June 30, 1998	12 Months Ended June 30, 1999	Cumulative 342 Months *Ended June 30, 1999	%
Revenues					
Gross Sales	\$20,995,540,946	\$ 1,630,341,833	\$ 1,658,404,007	\$24,284,286,786	98.54%
Forfeited Prizes	249,187,560	13,806,485	19,748,772	282,742,817	1.15%
Interest Income	59,280,176	4,072,748	4,186,426	67,539,350	0.27%
Miscellaneous Income	5,987,704	1,149,941	990,575	8,128,220	0.03%
Total Revenues	21,309,996,386	1,649,371,007	1,683,329,780	24,642,697,173	100.00%
Expenditures					
Allocation for Prize Awards	10,560,846,033	868,409,846	888,318,671	12,317,574,550	49.98%
Commission to Agents & Banks	1,145,558,055	89,317,435	90,737,243	1,325,612,733	5.38%
Operating Expenditures	327,792,630	16,018,223	15,563,552	359,374,405	1.46%
Game Contractor Fees	353,859,291	23,999,848	25,787,188	403,646,327	1.64%
Courier Collection Fees	12,235,328	—	—	12,235,328	0.05%
On-Line Network Fees	13,086,801	7,725,744	8,060,528	28,873,073	0.12%
Start-Up Costs	686,137	—	—	686,137	—
Provision for Doubtful Accounts	299,896	—	—	299,896	—
Total Expenditures	12,414,364,171	1,005,471,096	1,028,467,182	14,448,302,449	58.63%
Contributions for Aid to Education and State Institutions	8,886,327,665	642,829,785	652,342,709	10,181,500,159	41.32%
Total Expenditures and Contributions	21,300,691,836	1,648,300,881	1,680,809,891	24,629,802,608	99.95%
Revenues Over Expenditures and Contributions	9,304,550	1,070,126	2,519,889	12,894,565	0.05%
Fund Balance, Beginning of Period	—	9,304,550	10,374,676	—	—
Fund Balance, End of Period	\$ 9,304,550	\$ 10,374,676	\$ 12,894,565	\$ 12,894,565	0.05%

See accompanying notes to financial statements.

*Figures not covered by report of independent public accountants.

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Notes to Financial Statements June 30, 1999

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(1) Organization and accounting practices

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, which is a component unit of the State of New Jersey, 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.

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 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, 1999, the contribution for administrative expenses and encumbrance obligation aggregated \$16,275,514 of which \$5,521,770 was payable to the State Treasury at June 30, 1999.

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, 1999, aggregated \$652,342,709 of which \$65,342,709 was due to the State Treasury at June 30, 1999.

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, 1999, unclaimed prizes aggregating \$21,904,481 were forfeited of which \$6,748,772 is included in other income for the year ended June 30, 1999. During June 1999, the Executive Director authorized additional contributions for aid to education and State institutions totaling \$13,000,000 which is also included in other income for the year ended June 30, 1999. At June 30, 1999, accounts payable and accrued liabilities include \$1,622,274 related to forfeited prizes.

Revenue recognition

On May 26, 1999, the Commission began selling tickets for a new \$1 machine game called "The BIG GAME." "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. and the initial drawing to include New Jersey was on May 28, 1999.

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 market. 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 net of an allowance for doubtful accounts of \$150,000.

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 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, 1999, the projected future costs of installment prize obligations, with a carrying value of \$1,234,711,063, amount to \$1,937,837,952 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 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 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 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, 1999, the Commission held annuity contracts totaling \$1,234,711,063 issued through twelve insurance companies. 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.

Mutual Benefit Life, with whom the Commission has \$9,845,570 outstanding in annuity contracts at June 30, 1999, has been placed in temporary rehabilitation by its respective regulatory authorities. The management of Mutual Benefit Life has stated that they will continue to make all annuity payments in full. Mutual Benefit Life completed a sale of its annuity business to members of the SunAmerica, Inc., family of companies on December 31, 1998. The Mutual Benefit Life rehabilitation ended on June 30, 1999, and SunAmerica, Inc., assumed all servicing of these contracts as of that date. Management of the Commission does not believe that the status of Mutual Benefit Life will have a significant impact on the fair value of its annuity contracts or the accompanying statement of revenues, expenditures, and contributions and changes in fund balance.

The estimated fair value of annuity contracts approximates the carrying value reflected in the accompanying balance sheet at June 30, 1999. 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, 2001.

(b) Operating leases

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

Future minimum lease payments are as follows:

2000	710,181
2001	674,676
2002	666,500
2003	666,500
2004	666,500
Thereafter	666,500

Rent expense for office facilities in 1999 was \$777,343.

(5) Year 2000 issue (unaudited)

The Commission is aware of the issues associated with information technology as the millennium (year 2000) approaches. The "year 2000" issue is whether computer systems will properly recognize date-sensitive information when the year changes to 2000. Computer systems that do not properly recognize such information could generate erroneous data or cause a system to fail.

The Commission has utilized both internal and external resources to identify, correct or reprogram, and test the computer systems for year 2000 compliance. Substantially all reprogramming efforts are completed and the Commission is in process of testing. To date, confirmations have been received from the Commission's primary processing vendors that plans are being developed to address processing of transactions in the year 2000. However, there can be no assurance that computer systems of other entities on which the Commission's computer systems rely also will be timely converted or that any such failure to convert by another entity would not have an adverse effect on the Commission's systems.

Christie Whitman
Governor

Virginia E. Haines
Executive Director

Benefits Education
and Institutions



www.state.nj.us/lottery



Every day, New Jersey residents from



different walks of life, socioeconomic levels,



ages, and races benefit from the proceeds



contributed by the New Jersey Lottery.