

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



**Annual Report
Fiscal Year 1991**

New Jersey State Library

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INDEPENDENT AUDITORS' REPORT

The Commissioners
New Jersey State Lottery Commission

We have audited the accompanying balance sheets of the New Jersey State Lottery Commission (the "Commission") as of June 30, 1991 and the related combined statement of revenues, expenditures, 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 our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Commission at June 30, 1991 and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

Deloitte & Touche

Parsippany, New Jersey
September 6, 1991



**NEW JERSEY
LOTTERY**
Benefits Education
and Institutions

Balance Sheets

JUNE 30, 1991

WITH COMPARATIVE TOTAL MEMORANDUM FIGURES FOR 1990

	Lottery Special Revenue Fund	Lottery Agency Fund	Lottery Administrative Fund	Total (Memorandum Only)	
				1991	1990
ASSETS					
Cash	\$906,876	-	-	\$906,876	\$2,121,978
Accounts Receivable, Net	9,097,191	-	-	9,097,191	7,629,203
Interfund Receivable - Administration	-	-	4,871,587	4,871,587	150,622
Investments:					
Deposit Fund Contracts	-	578,848,869	-	578,848,869	461,878,205
State Of New Jersey					
Cash Management Fund	51,580,892	-	-	51,580,892	57,909,155
Deferred Expenses	2,779,385	-	-	2,779,385	2,417,382
Total Assets	\$64,364,344	\$578,848,869	\$4,871,587	\$648,084,800	\$532,106,545
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts Payable and Accrued Liabilities	\$4,129,235	-	\$4,231,781	\$8,361,016	\$2,920,942
Obligation for Unpaid Prize Awards	23,201,907	-	-	23,201,907	27,573,183
Due To State Of New Jersey - Education	28,407,923	-	-	28,407,923	36,034,793
Interfund Payable - Administration	4,871,587	-	-	4,871,587	150,622
Installment Prize Obligations	-	578,848,869	-	578,848,869	461,878,205
Total Liabilities	60,610,652	578,848,869	4,231,781	643,691,302	528,557,745
Fund Balance:					
Reserved For Encumbrances	-	-	639,806	639,806	549,578
Reserved For Prize Awards	3,503,692	-	-	3,503,692	2,749,222
Reserved For Bond Insurance	250,000	-	-	250,000	250,000
Total Fund Balance	3,753,692	-	639,806	4,393,498	3,548,800
Total Liabilities And Fund Balance	\$64,364,344	\$578,848,869	\$4,871,587	\$648,084,800	\$532,106,545

See notes to financial statements



Comparative Statements

Combined Statement of Revenues, Expenditures, and
Changes in Fund Balance

	CUMULATIVE 222 MONTHS *ENDED JUNE 30, 1989	12 MONTHS ENDED JUNE 30, 1990	12 MONTHS ENDED JUNE 30, 1991	CUMULATIVE 246 MONTHS *ENDED JUNE 30, 1991	%
REVENUES:					
GROSS SALES	\$9,655,213,269	\$1,223,346,654	\$1,241,576,274	\$12,120,136,197	98.50%
FORFEITED PRIZES	108,011,317	18,386,949	15,417,753	141,816,019	1.15%
INTEREST INCOME	34,804,366	3,083,486	2,750,737	40,638,589	0.33%
MISCELLANEOUS INCOME	1,656,520	227,737	158,320	2,042,577	0.02%
	9,799,685,472	1,245,044,826	1,259,903,084	12,304,633,382	100.00%
EXPENDITURES:					
PRIZE EXPENSE	4,790,025,328	613,725,153	622,169,974	6,025,920,455	48.97%
COMMISSION TO AGENTS & BANKS	530,244,487	66,665,519	67,177,680	664,087,686	5.40%
OPERATING EXPENSES	181,947,094	19,742,097	19,931,981	221,821,172	1.80%
GAME CONTRACTOR FEES	171,684,110	20,205,708	20,426,248	212,316,066	1.73%
COURIER COLLECTION FEE	5,711,687	1,024,884	944,580	7,681,151	0.06%
START UP COSTS	686,137	-	-	686,137	0.01%
PROV DOUBTFUL ACCTS	200,000	40,453	-	240,453	-
	5,680,498,843	721,403,814	730,650,463	7,132,553,120	57.97%
OTHER FINANCING USES:					
CONTRIBUTION FOR AID TO EDUCATION AND STATE INSTITUTIONS	4,115,244,048	524,034,793	528,407,923	5,167,686,764	42.00%
TOTAL EXPENDITURES AND OTHER FINANCING USES	9,795,742,891	1,245,438,607	1,259,058,386	12,300,239,884	99.97%
NET CHANGE IN FUND BALANCE	3,942,581	(393,781)	844,698	4,393,498	0.03%
FUND BALANCE, BEGINNING OF PERIOD	-	3,942,581	3,548,800	-	-
FUND BALANCE, END OF PERIOD	\$3,942,581	\$3,548,800	\$4,393,498	\$4,393,498	0.03%

See notes to financial statements.

*Figures not covered by independent auditors' report.

NOTES TO FINANCIAL STATEMENTS

New Jersey State Lottery Commission June 30, 1991

(1) Organization and Accounting Practices:

Authorizing legislation: The New Jersey State Lottery Commission (the "Commission" or the Lottery) was established in 1970 pursuant to the "State Lottery Law" N.J.S.A. 5:9-1, et seq. The Commission is within the Department of Treasury of the State of New Jersey. The Commission is authorized and empowered to promulgate rules and regulations regarding the conduct of lottery games, including the price or prices of tickets and the number and size of prizes on winning tickets, the licensing of agents, and the apportionment of ticket revenues.

Basis of Accounting: The various funds of the Lottery are included as part of several funds in the State of New Jersey's annual financial report. As a result, the accompanying financial statements have been prepared using the same basis of accounting as follows:

Lottery Special Revenue Fund: This fund is established to account for revenues and expenditures of specific lottery games and is classified as part of the State's special revenue fund.

Lottery Administrative Fund: This fund accounts for all operating expenses for the administration of the Lottery and is classified as part of the State's general fund.

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

For purposes of financial presentation the revenues, expenditures, and changes in fund balance of the Lottery Special Revenue Fund and Lottery Administrative Fund have been combined. For the year ended June 30, 1991 the Lottery transferred \$19,871,587 to the New Jersey State Treasury to reimburse the Treasury for expenses paid on behalf of the Lottery. Such expenses are recorded and reported as expenses of the Lottery.

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. Available means collectible within the current period or soon thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the liability is incurred. The following is a summary of more significant accounting policies.

a. **Allocation of Revenue** - 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, 1991 aggregated to \$528,407,923.

The Commission has designated that a minimum of 45% of sales 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.

b. **Unclaimed Prizes** - New Jersey Law requires that prizes not claimed

within one year from the date of the drawing are forfeited and designated for aid to education and state institutions. For the year ended June 30, 1991 unclaimed prizes aggregating \$15,417,753 were forfeited.

c. **Revenue Recognition** - Revenue from the sale of Lottery tickets are recognized as follows:

(1) Pick Three, Pick Four, Pick Six Lotto, and Five Card Lotto games on the drawing date.

(2) Instant Games on a daily basis. Sales adjustments are recorded based upon final reconciliations prepared after the termination of a lottery instant game. Lottery tickets claimed and disbursed by agents as free ticket prizes are not reflected as lottery ticket sales or prize awards.

d. **Installment Prize Obligation and Amount Allocated to Prize Awards** - 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 liability for installment prize obligations. Amount allocated to prize awards reflects the anticipated cost of annuity contracts necessary to satisfy stated prize awards plus any single payment awards. At June 30, 1991, the projected future costs of prize obligations amount to \$1,123,363,000 which are due in installments ranging from ten years to the lifetime of the recipient.

e. **Equipment and Inventory** - Equipment and Inventory of the Lottery are recorded in the General Fixed Asset Account Group of the State of New Jersey. Items of this nature are recognized as expenditures during the period in which they are acquired.

f. **Vacation and Sick Leave** - Accumulated unpaid vacation, sick pay, and other employee benefits are recorded in the General Long-Term Debt Account Group of the State of New Jersey. In the event of retirement or termination, an employee is reimbursed for accumulated sick leave to one half of the unused days, not exceeding \$15,000. Upon separation, an employee is reimbursed for accumulated vacation pay. Accumulated vacation and accumulated sick leave are estimated to be immaterial.

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

h. **Total Memorandum columns** - Total memorandum columns are presented for additional analysis only and is not intended to present consolidated financial information of the Lottery.

(2) Accounts Receivable:

Accounts receivable consists primarily of amounts due from sales agents and are recorded net of the allowance for uncollectible accounts aggregating to \$150,000 at June 30, 1991.

(3) Investments:

The Lottery 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 from A.M. Best & Co., a private rating agency, of at least "A+". However, due to the long term nature of these contracts, the credit quality of the insurer is subject to change. At June 30, 1991, the commission held annuity contracts totalling \$578,848,869 issued through twelve insurance companies. During July 1991, Mutual Benefit Life, with whom the Commission has \$27,252,250 outstanding in annuity contracts, was placed in temporary rehabilitation by the State of New Jersey, Department of Insurance. The Management of Mutual Benefit Life has stated that they will continue to make all annuity payments in full. Management of the Commission does not believe that the status of Mutual Benefit Life will have a significant impact on the fair value of its annuity contracts.

(4) Game Termination:

a. On August 30, 1990 the Commission voted to discontinue the Five Card Lotto game as of September 18, 1990.

(5) Litigation:

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

New Jersey State Library



**NEW JERSEY
LOTTERY**

Benefits Education
and Institutions

"WHERE THE MONEY GOES"

(Schedule Not Covered by Independent Auditors Report)

State of New Jersey
Programs Supported by State Lottery Resources
For Fiscal Year 1991

<u>Programs:</u>	<u>Amounts:</u>	<u>Programs:</u>	<u>Amounts:</u>
DEPARTMENT OF CORRECTIONS		DEPARTMENT OF HIGHER EDUCATION	
Institutional Control And Supervision:		Aid To County Colleges For Operational Costs	80,340,000
Adult Institutions	\$72,832,000	Aid To Independent Colleges And Universities	20,480,000
Youth And Juvenile Institutions	26,658,000	College Outcomes Evaluation Program	560,000
Institutional Care And Treatment:		Excellence Initiatives	20,415,000
Adult Institutions	33,820,000	Garden State Scholarship	3,478,000
Youth And Juvenile Institutions	12,695,000	Governor's School	974,000
Maintenance Of Physical Plant	14,646,000	Learning Disabled Program	710,000
DEPARTMENT OF EDUCATION		Optometric Education	223,000
Academy For Advancement of Teaching And Management	669,000	Schools Of Professional Nursing	833,000
County Special Service Districts	34,950,000	Small Business And Entrepreneurship At Rutgers	65,000
Governor's Scholars Program	825,000	Supplementary Education Program Grants	9,015,000
Marie Katzenbach School For The Deaf	7,379,000	Veterinary Medicine Education	1,433,000
New Jersey School For The Arts	26,000	Women's Studies Chair At Douglas College	75,000
Non-Public School Aid	37,245,000	DEPARTMENT OF HUMAN SERVICES	
Partners In Learning	357,000	Operation Of State Psychiatric Hospitals	64,197,000
Pre-Kindergarten For Urban Students	2,447,000	Operation of Centers For Developmentally Disabled	45,542,000
Programs For The Gifted And Talented	141,000	DEPARTMENT OF MILITARY AND VETERANS AFFAIRS	
Project Coed	2,511,000	Operation Of Homes For Disabled Soldiers	8,795,000
Projects For Handicapped Infants	12,956,000		
School Improvement/Effective Schools	297,000		
School Nutrition	6,565,000		
Statewide Testing Program	1,602,000		
Teacher Recognition Program	1,223,000		
Urban Initiative: Broad Based Component	1,429,000		
		Total	\$528,408,000