

CELEBRATING



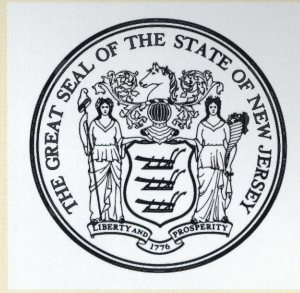
1970-2000

Annual Report ~ 2000





Virginia E. Haines
Executive Director



Letter from the Executive Director

Dear Friends,

We mark our 30th Anniversary with one of our most successful years to date. Over the past three decades, Lottery proceeds have helped countless New Jerseyans achieve their goals. As the State's fourth largest revenue producer, the Lottery has returned more than \$10.9 billion – or 41% of its earnings over the past 30 years – to various institutions and programs throughout our state.

In Fiscal Year 2000 the New Jersey State Lottery generated more than \$1.8 billion in total revenue, a 10.63% increase over last year, while again being recognized as one of the most cost-efficient lotteries in the nation, spending less than 1% of its total revenue on operative and administrative costs. Most importantly however, the Lottery contributed a record \$719 million to state education and institutions. This significant revenue, and the programs it supports, continues to impact the daily lives of New Jersey residents from all walks of life, socioeconomic levels, ages and races.

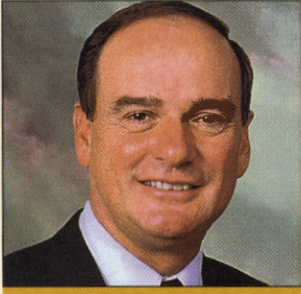
In addition to the revenue the Lottery was able to generate for the Garden State in Fiscal Year 2000, we also launched several innovative promotions, continued to create new products and made some exciting enhancements to some of our more popular games. Unique customer promotions such as Pick-3 *Green Ball Double Draw* and the Pick 6 Lotto *Buy Two, Get the Third Free* coupon helped to drive sales and breathe new excitement into existing games. In the spring of 2000 New Jersey participated in the record-breaking \$363 million BIG GAME jackpot. Lastly, in June 2000 the Lottery received approval to make several enhancements to the "Pick 6 Lotto" game, that will produce higher jackpots, award more prizes, increase sales and generate greater returns for state education and institutions.

The year 2000 clearly was a banner year for the New Jersey State Lottery and our success would not be possible without the dedication and support of my staff, our 6,000 agents and most importantly the players. I am proud of the important role that the lottery plays in New Jersey, and I am confident that we will continue to generate significant revenue for the Garden State and play a key role in supporting education and institutions.

Sincerely,

A handwritten signature in black ink that reads 'Virginia E. Haines'.

Virginia E. Haines
Executive Director



Donald T. DiFrancesco
Acting Governor



STATE OF NEW JERSEY
OFFICE OF THE GOVERNOR
PO BOX 001
TRENTON
08622

Letter from the Acting Governor

Dear Friends,

Congratulations to the New Jersey State Lottery on 30 years of success.

In 1970, New Jersey created the nation's third state lottery. The Lottery's contribution to New Jersey's educational institutions and social service programs truly has made our state a better place in which to live, work, and raise a family. Over the past three decades, the Lottery has contributed more than \$10.9 billion in revenue to support programs for underprivileged children, scholarships for college students, and homes for disabled veterans.

On behalf of all New Jerseyans, I am pleased to extend my sincere thanks and congratulations to the Lottery, its staff, and the 6,000 lottery agents throughout the state who have played a key role in making the New Jersey State Lottery a tremendous success.

Yours sincerely,

A handwritten signature in dark ink that reads 'Donald T. DiFrancesco'.

Donald T. DiFrancesco
Acting Governor



Where the Money Goes

Every day, New Jersey residents benefit from New Jersey Lottery proceeds. Each time a ticket is purchased, players are providing support to underprivileged children, scholarships for college students and homes for disabled veterans and developmentally disabled individuals in New Jersey.

In Fiscal Year 2000, the Lottery contributed more than \$719 million, or 39% of every dollar earned, to support State Education and Institutions. Since its inception 30 years ago, the Lottery has returned more than \$10.9 billion back to the state, while awarding \$13.3 billion to winners in cash and prizes from more than \$26 billion in total revenue.

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. In Fiscal Year 2000, agents earned over \$100 million in commissions, and in excess of \$1.4 billion since 1970.

Out of every dollar earned, the Lottery returned 53% back to players in the form of prizes. Last year, 65.5 million New Jersey Lottery players won an unprecedented \$989 million in prizes.

As one of the most cost-efficient lotteries in the United States, the New Jersey Lottery spends less than 1% of its revenues to operate and promote its business. In Fiscal Year 2000, the Lottery raised more than \$1.8 billion in revenue. Of that amount, \$16 million was used for operating expenditures, allowing the Lottery to contribute over \$719 million to the State to help fund education and institutions, making everyone in the Garden State a winner.



State of New Jersey Programs Supported by State Lottery Resources for the Fiscal Year Ended June 30, 2000

(Amounts Expressed in Thousands)

	<u>Amount Expended and/or Encumbered (a)</u>
DEPARTMENT OF AGRICULTURE	
SCHOOL NUTRITION	\$ 7,004
DEPARTMENT OF EDUCATION	
GOVERNOR'S SCHOOL	955
MARIE KATZENBACH SCHOOL FOR THE DEAF	3,043
NON-PUBLIC SCHOOL AID	79,817
STATEWIDE ASSESSMENT PROGRAM (GRADES 4,8,11)	14,729
TOTAL DEPARTMENT OF EDUCATION	<u>98,544</u>
HIGHER EDUCATIONAL SERVICES	
AID TO COUNTY COLLEGES FOR OPERATIONAL COSTS	131,884
AID TO INDEPENDENT COLLEGES AND UNIVERSITIES	22,245
COORDINATED GARDEN STATE SCHOLARSHIP PROGRAM	6,851
HIGHER EDUCATION FACILITIES TRUST FUND - DEBT SERVICE	18,813
HIGHER EDUCATION FOR SPECIAL NEEDS STUDENTS	717
OPPORTUNITY PROGRAM GRANTS	20,403
SUPPLEMENTARY EDUCATION PROGRAM GRANTS	11,385
VETERINARY MEDICINE EDUCATION	1,243
TOTAL HIGHER EDUCATIONAL SERVICES	<u>213,541</u>
DEPARTMENT OF HUMAN SERVICES	
OPERATION OF CENTERS FOR DEVELOPMENTALLY DISABLED	166,096
OPERATION OF STATE PSYCHIATRIC HOSPITALS	150,023
TOTAL DEPARTMENT OF HUMAN SERVICES	<u>316,119</u>
DEPARTMENT OF MILITARY AND VETERANS' AFFAIRS	
OPERATION OF HOMES FOR DISABLED SOLDIERS	22,721
DEPARTMENT OF THE TREASURY	
SCHOOL CONSTRUCTION	62,000
TOTAL REVENUE REALIZED - GAAP BASIS	<u>\$ 719,929</u>

(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



30 Years of Helping New Jersey Institutions

Marie H. Katzenbach School for the Deaf

On March 31, 1832 an act was approved by the State of New Jersey to create a state institution for the instruction and care of the hearing impaired members of the community. To this end, the state procured a building in Trenton for use as the first school for the deaf.

Later, the Board of Trustees which guided the school was abolished and financial responsibility for the school was absorbed by the State Department of Education. As a result, the State turned to many of its offices and divisions for financial support, one of which, was the New Jersey Lottery.

This school, known today as the Marie H. Katzenbach School for the Deaf, has profited greatly from its partnership with the New Jersey Lottery, and is bringing positive change to the lives of hundreds of hearing-impaired New Jersey students.

The Katzenbach School for the Deaf carries an annual enrollment of approximately 250 students, ranging from three to 21 years of age. Aside from its standard curriculum, the Katzenbach School for the Deaf provides a diverse range of specified and goal-oriented courses to assist students in overcoming their disabilities and achieving their academic objectives.

In Fiscal Year 2000, the Marie H. Katzenbach School for the Deaf received \$3 million from the New Jersey State Lottery. In particular, these proceeds allowed the Katzenbach School to expand its growing list of educational services by adding programs to promote positive learning and assist those with multiple disabilities.



Vineland Developmental Center

With the assistance of the New Jersey State Lottery, people with special needs are getting the support and guidance they need at facilities such as the Vineland Developmental Center. Founded in 1888, the Center is both the oldest and largest residential facility for the developmentally disabled in New Jersey.

Located in rural Cumberland County, the facility has two campuses, more than 64 buildings and residential facilities which provide a home for 562 developmentally disabled persons. What's more, the Vineland Developmental Center's *Parents and Friends Association* operates 24 group homes for more than 165 women, and administers apartments for 24 developmentally disabled women within the surrounding community.

The Center's curriculum, made possible in part by Lottery proceeds, has been successful in assisting its residents in becoming adjusted to living within the community at-large. Perhaps most inspiring, through a variety of physical, occupational, vocational and psychological services, many residents have gained the valuable work skills they need to join the workforce.

Today, these former residents are leading fulfilling, productive lives.

In Fiscal Year 2000, the New Jersey Lottery contributed \$316 million to the New Jersey Department of Human Services for use at such institutions as the Vineland Developmental Center. The Lottery's commitment to improving the quality of life throughout our state is reflected at the Vineland Developmental Center and across New Jersey.



Pick 3

Pick 3, originally dubbed Pick-It, was the New Jersey Lottery's contribution to the rich history of on-line computerized lottery games. The game — the first of its kind in the nation — allowed players to select their own numbers and revolutionized the lottery industry, paving the way for a succession of on-line games.

Pick-It, first introduced on May 22, 1975, astonished Lottery officials with its instant success among players. The game was originally slated for a six-month trial period, but in just five months, recorded sales of nearly \$18 million.

The phenomenal success of Pick-It was unprecedented. In its first year, Pick-It sales totaled \$53.2 million, and a year later this figure nearly doubled with the introduction of the nightly Pick-It drawing on New Jersey Network. Ultimately in 1987, the name of the game was changed to Pick 3 to be consistent with the Lottery's two other on-line games, Pick 4 and Pick 6.

Now twenty-five years after its introduction, Pick 3 continues to be one of the Lottery's most successful games with sales totaling \$435 million for Fiscal Year 2000 and contributions of nearly \$185 million to state education and institutions. Since its introduction, Pick 3 has awarded \$4.6 billion in prizes and recorded sales totalling \$9.2 billion.

“Now twenty-five years after its introduction, Pick 3 continues to be one of the Lottery's most successful games with sales totaling \$435 million for Fiscal Year 2000 and contributions of nearly \$185 million to state education and institutions.”



1970

New Jersey Lottery Debuts

1972

First Five Digit Daily Game Begins

1971

First Millionaire Drawing Held

1975

Pick-It, The Nations First On-Line Game is Introduced





Pick 4

With the foundation laid by the success of the Pick 3 game, Lottery officials introduced Pick 4 on June 9, 1977. The weekly Pick 4 game was designed to produce larger prizes with higher odds of winning in comparison to the daily Pick 3.

The Pick 4 offered lottery players a unique system that allowed wagers from \$.50 up to \$5.00 on each ticket. The game also afforded players the choice of two different betting options: a straight bet matching the winning numbers in exact sequence; or a combination bet, matching the winning numbers in any sequence.

Two months after its inception, Pick 4 joined the Pick 3 in live televised drawings. Almost immediately, Pick 4 was averaging more than \$300,000 in gross weekly sales and paid out prizes as high as \$14,000. Within its first year, sales of Pick 4 totaled an impressive \$22.2 million.

Although payouts have evolved over the years, the characteristics of the Pick 4 game remain the same. The game is still only \$.50 per bet, and the straight and combination features have not changed. Pick 4 has remained a steady favorite among players, amassing \$235 million in sales and returning more than \$103 million to the state in Fiscal Year 2000. What's more, since 1977 Pick 4 sales have totaled \$4.2 billion.

“Pick 4 has remained a steady favorite among players, amassing \$235 million in sales and returning more than \$103 million to the state in Fiscal Year 2000.”



1975
First Instant Game, 7-11-21 is Introduced



1977
Pick 4 is Introduced

1977

First Televised New Jersey Lottery Drawing

1980

Pick 6 Lotto is Introduced





Jersey Cash 5

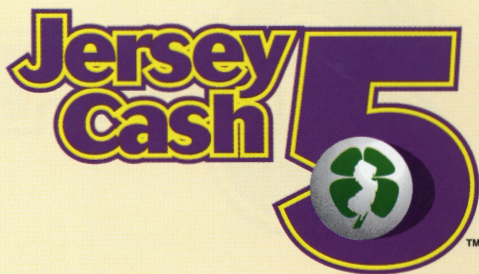
The New Jersey State Lottery introduced Jersey Cash 5 on September 30, 1992. The game featured cash prizes in an easy to play five digit numbers game, which allowed players to choose five numbers from a field of 38, or, through the convenience of a Quick-5. With a field of 38 numbers, the Jersey Cash 5 offered lottery players a greater chance of winning than similar 5 digit games in neighboring states.

Jersey Cash 5 helped to fill a void in New Jersey's existing Lottery system by offering lottery players a mid-tier cash prize game. Jersey Cash 5 is unique in that, if there is no top prize winner, the prize money rolls down to supplement the prize payouts for winners matching 4 of 5 numbers. As a result, winners are created each and every night the game is played.

Within its first 10 months, Jersey Cash 5 was drawn weekly and produced sales totaling \$55.9 million. However as player demand for the game increased, drawings for Jersey Cash 5 soon increased to twice a week beginning in June 1994, and then up to three drawings a week. Finally, in 1999 Jersey Cash 5 caught up to player demand with the addition of two more nightly drawings and is now drawn five times per week.

All told, sales from Jersey Cash 5 amounted to \$81 million in Fiscal Year 2000. Since its inception, Jersey Cash 5 has awarded more than \$365 million in prizes and contributed more than \$315 million to benefit thousands of needy New Jerseyans.

“Since its inception, Jersey Cash 5 has awarded more than \$365 million in prizes and contributed more than \$315 million to benefit thousands of needy New Jerseyans.”



1981
Total Prize Money Awarded since 1970
Exceeds \$1 Billion

1983
New Jersey Lottery Names
100th Millionaire

1981
First Pick 6 Lotto Millionaire
Claims \$1.8 Million Prize

1986
Pick 6 Lotto Drawings Held Twice a Week



Pick 6

Pick 6 Lotto has a rich history in New Jersey. Pick 6 Lotto produced its first millionaire in 1981 when Manuel Collada of Hillside won \$1.8 million. Since then, Pick 6 has offered a record jackpot of \$44.3 million in 1992, shared by 4 winning tickets. In 1996, a group of 35 co-workers from the Port Authority of New York and New Jersey claimed a jackpot worth \$33.4 million, and in 2000, Johnnie Francilus of Newark claimed the highest individual jackpot worth \$46.2 million – the largest jackpot collected in state history.

While Pick 6 Lotto remains one of the most popular games in New Jersey, Lottery officials also realize the vital role it plays in generating revenue for the state and that it must adapt to continually meet the interests and demands of our players.

As a result, in June 2000, the Lottery received approval from the New Jersey Lottery Commission to make several enhancements to the “Pick 6 Lotto” game.

The changes, included:

- The matrix was increased to 6 of 49 numbers
- Average prize for the jackpot is \$11 million annuitized
- The annuity period now is 30 years
- Lower divisions now have an average prize of \$2,700 for matching 5 numbers and \$56 for matching 4 numbers
- Addition of a fixed prize level of \$3 for a match 3 of 6
- Elimination of the bonus draw

The goal of these enhancements is to produce bigger jackpots for players, increase sales, generate greater returns for state education and institutions, and what’s more, these improvements will help to prolong the game’s success.

Since the first Pick 6 ticket was sold on May 9, 1980, the game has generated more than \$6.5 billion in sales, contributed more than \$2.7 billion to state education and institutions while creating 1,262 new millionaires. While the collective success of Pick 6 is unparalleled, its recent success should not go unnoticed. Specifically, during Fiscal Year 2000, New Jersey’s Pick 6 Lotto game generated more than \$162 million in revenue and contributed more than \$72 million to benefit state programs.



“During Fiscal Year 2000, New Jersey’s Pick 6 Lotto game generated more than \$162 million in revenue and contributed more than \$72 million to state programs.”

1986
Pick 6 Lotto Sales Reach the
\$1 Billion Mark

1987
Contributions to Education and Institutions
Exceed \$3 Billion

1987
Pick-It Name Changed to Pick 3

1992
Jersey Cash 5 is Introduced





LOTZEE

With the success of the New Jersey State Lottery's instant games, Lottery officials sought to design a new on-line game that played like an instant. The result was LOTZEE, the first game of its kind to appear in the lottery industry. Debuting on June 20, 1998, this game offered players 63 ways to win on each \$2 ticket.

LOTZEE, a unique and more involved lottery game, is drawn every Saturday night. Each LOTZEE ticket has 21 sets of four numbers, divided among five prize levels. Each prize level contains sets of four numbers between 00-99. To play, the player selects one row of numbers in the \$500,000 prize level, while the Green Machine selects the remaining 20 rows.

LOTZEE's top prize tier offers players a chance at \$500,000 for correctly matching all four numbers within the "\$500,000" prize tier. In addition, the remaining prize tiers offer players a chance at winning \$100,000, \$50,000, \$25,000 or \$10,000 for correctly matching any four numbers within that prize tier, and players can also win for matching two or three numbers.

In Fiscal Year 2000 LOTZEE sales totaled \$27 million. Since it was first introduced, LOTZEE has produced 5.5 million winners and awarded more than \$40.7 million in prizes, while returning \$8.5 million to state education and institutions.

"LOTZEE has produced 5.5 million winners and awarded more than \$40.7 million in prizes, while returning \$8.5 million to state education and institutions."



1993

"Lucky 372", the Largest Group Ever to Share a Pick 6 Prize, Claim a \$8.6 Million Jackpot

1995

Pick 6 Lotto Exceeds \$5 Billion in Sales Since Inception

1995

Lottery Introduces First \$5 Instant Game in Commemoration of its 25th Anniversary



1996

Lottery Introduces First "Win for Life" Instant Game





The BIG GAME

In May 1999, New Jersey became the seventh state to offer the BIG GAME multi-state lottery, and ever since has witnessed success stories from Hoboken to Cape May. In Fiscal Year 2000 alone, BIG GAME sales totaled \$299 million with New Jersey players collecting \$146 million in prize money.

Since joining the multi-state lottery game, the Garden State has contributed to the largest lottery jackpot in United States' history - \$363 million; sold more than 310 million BIG GAME tickets, became the highest BIG GAME ticket-selling state; awarded \$151 million in BIG GAME prizes, including three top-prize winners and 123 \$150,000 winners; produced BIG GAME commissions of \$15.5 million for 6,000 registered New Jersey Lottery agents; and BIG GAME sales have generated \$124 million for state education, of which \$62 million has been earmarked specifically for new school construction.

The BIG GAME has been a winning experience for everyone in New Jersey. Players have experienced the thrill of higher jackpots, agents have received record-breaking commissions, and most importantly, millions of dollars have been generated for state education and institutions.

BIG GAME proceeds were impacted by a record-breaking jackpot run. For nine weeks between March 7th and May 9th, the BIG GAME rolled over 18 times without a winner reaching an all-time high of \$363 million. During that time, New Jersey experienced staggering sales figures including its highest week of BIG GAME sales ever, with more than 81 million tickets sold from May 4th to May 10th.

To win the advertised 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.



"BIG GAME sales have generated \$124 million for state education, of which \$62 million has been earmarked specifically for new school construction."



1996

Lottery Introduces First \$10 Instant Game

1999
Contributions to Education and Institutions Exceed \$10 Billion

1998

Lottery Introduces LOTZEE



1999

New Jersey Joins Multi-State Lottery, The BIG GAME





Instant Games

In Fiscal Year 2000, the New Jersey State Lottery introduced 55 new instant games. In order to meet increased consumer demand since the introduction of 47 games in Fiscal Year 1999, eight additional games were added for Fiscal Year 2000. A favorite among lottery players since their inception, there were anywhere from 20 to 30 instant games readily available, providing players with an extensive variety of games to choose from.

Since the introduction of the first instant game, 7-11-21, on June 16, 1975 instant games have enjoyed tremendous success, totaling more than \$4.2 billion in sales and awarding more than \$2.3 billion in cash and prizes. Over the next 25 years, instant games evolved to maintain customer interest by offering bigger jackpots and more lucrative prizes, while adopting various themes, holidays, events and celebrities as marketing attractions.

One of the many instant games in demand by consumers was our *Celebrating 30 Years* Instant Game, which debuted in January 2000. By the end of Fiscal Year 2000 the Celebrating 30 Years series returned more than \$4.3 million to state education and institutions, while at the same time giving players a chance to win one of three 2000 Chevrolet® Corvettes®, three vintage 1970 Corvettes or a top prize of \$30,000.

In all, the Lottery exceeded its instant ticket sales projections for Fiscal Year 2000 by 9.6%. By devising more exciting games, and in conjunction with a strategic marketing campaign, instant ticket sales totaled \$597 million for Fiscal Year 2000 and contributed over \$177 million to state education and institutions. Additionally, and just as important, over \$369 million was paid out in cash and prizes to instant winners.

“By devising more exciting games, and in conjunction with a strategic marketing campaign, instant ticket sales totaled \$597 million for Fiscal Year 2000 and contributed over \$177 million to state education and institutions.”



1999

New Jersey Player Wins \$13 Million
in The BIG GAME



2000

The BIG GAME Jackpot Reaches \$363 Million,
the Largest Jackpot in American History

2000

New Jersey Lottery Celebrates
30th Anniversary



The New Jersey Lottery Commission



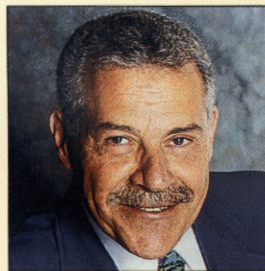
Peter R. Lawrance,
Acting State Treasurer

Peter R. Lawrance, of Hopewell, serves as the Acting State Treasurer and is a member of the Lottery Commission. Among his major duties are managing the State's budget and overseeing 13 Divisions. Lawrance joined the Department of the Treasury in 1994, serving as Deputy Director of the Office of Management of Budget (OMB) and Acting Director of OMB before being promoted to Deputy Treasurer in September 1999. Prior to his service at Treasury, Lawrance worked for over Budget and Finance Officer. He worked as a Research Analyst for the City of New York Budget Office for three years before coming to New Jersey State government.



Gregory J. Romano, Esq.

Gregory J. Romano, of Basking Ridge, was elected Chairman of the New Jersey Lottery Commission in 1999. Romano was first 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 and SunAlliance USA, Inc., and ACE USA, Inc.



James Cicalese

James Cicalese, of Point Pleasant Beach, currently serves as Vice Chairman of the Lottery Commission. He is a 19-year veteran of the Lottery Commission, first being appointed in 1982. He served five terms as Chairman and three prior terms as Vice Chairman. Cicalese is the former Director of the Ocean County Department of Insurance and Risk Management.



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 Chief Executive Officer of Boswell Engineering in South Hackensack.



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 Chief of Ophthalmology at the Newark Eye and Ear Infirmary, as well as the Director of the Children's Eye Care Center of New Jersey. Dr. Caputo is a Professor of Ophthalmology at UMDNJ.



Robert Slater

Robert Slater, of Short Hills, was appointed to the Lottery Commission in 1995 by Governor Christie Whitman. He is co-founder and former co-Chief Executive Officer 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 (NJN) and the Essex County Improvement Authority.



Marvin Schmelzer

Marvin Schmelzer, of Marlboro, was appointed to the Lottery Commission in 2000 to fill the uncompleted term of the late David Goldfarb. A former elementary school teacher in New York City, he has been involved in residential and commercial real estate since 1972. He is currently a principal in numerous development companies throughout the state.



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, 2000, 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, 2000, 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 330 months ended June 30, 1998, and the cumulative 354 months ended June 30, 2000, were not audited by us and accordingly, we do not express an opinion on them.

KPMG LLP

September 22, 2000

NEW JERSEY STATE LOTTERY BALANCE SHEETS, JUNE 30, 2000

With Comparative Totals for 1999

	Special Revenue Fund	Agency Fund	Administrative Fund	Total (Memorandum Only)	
				2000	1999
ASSETS					
Cash	\$ 2,879,200	\$ -	\$ 250	\$ 2,879,450	\$ 1,816,648
Accounts Receivable, Net	12,865,671	-	-	12,865,671	25,282,060
Interfund Receivable - Administration	-	-	6,664,680	6,664,680	5,521,770
Investments:					
Deposit Fund Contracts	-	1,192,842,062	-	1,192,842,062	1,234,711,063
State Of New Jersey Cash Management Fund	152,375,179	-	-	152,375,179	96,134,070
Prepaid Expenses and Other Assets	8,719,977	-	-	8,719,977	7,641,321
Total Assets	\$ 176,840,027	\$ 1,192,842,062	\$ 6,664,930	\$ 1,376,347,019	\$ 1,371,106,932
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts Payable and Accrued Expenses	\$ 27,098,456	\$ -	\$ 4,936,269	\$ 32,034,725	\$ 19,501,073
Obligation for Unpaid Prize Awards	64,499,883	-	-	64,499,883	33,135,752
Due To State Of New Jersey - Education and Institutions	67,928,948	-	-	67,928,948	65,342,709
Interfund Payable - Administration	6,664,680	-	-	6,664,680	5,521,770
Installment Prize Obligations	-	1,192,842,062	-	1,192,842,062	1,234,711,063
Total Liabilities	166,191,967	1,192,842,062	4,936,269	1,363,970,298	1,358,212,367
Fund Balances:					
Reserved For Encumbrances	-	-	1,728,661	1,728,661	948,628
Reserved For Prize Awards	10,398,060	-	-	10,398,060	11,695,937
Reserved For Bond Insurance	250,000	-	-	250,000	250,000
Total Fund Balance	10,648,060	-	1,728,661	12,376,721	12,894,565
Total Liabilities And Fund Balance	\$ 176,840,027	\$ 1,192,842,062	\$ 6,664,930	\$ 1,376,347,019	\$ 1,371,106,932

See accompanying notes to financial statements



New Jersey State Lottery Comparative Statements

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

	Cumulative 330 Months *Ended June 30, 1998	12 Months Ended June 30, 1999	12 Months Ended June 30, 2000	Cumulative 354 Months *Ended June 30, 2000	%
REVENUES:					
GROSS SALES	\$ 22,625,882,779	\$ 1,658,404,007	\$ 1,838,840,627	\$ 26,123,127,413	98.56%
FORFEITED PRIZES	262,994,045	19,748,772	17,009,727	299,752,544	1.13%
INTEREST INCOME	63,352,924	4,186,426	5,428,009	72,967,359	0.28%
MISCELLANEOUS INCOME	7,137,645	990,575	1,036,638	9,164,858	0.03%
TOTAL REVENUES	22,959,367,393	1,683,329,780	1,862,315,001	26,505,012,174	100.00%
EXPENDITURES:					
ALLOCATION FOR PRIZE AWARDS	11,429,255,879	888,318,671	989,808,601	13,307,383,151	50.21%
COMMISSION TO AGENTS & BANKS	1,234,875,490	90,737,243	100,355,733	1,425,968,466	5.38%
OPERATING EXPENDITURES	343,810,853	15,563,552	16,680,397	376,054,802	1.42%
VENDOR FEES	377,859,139	25,787,188	29,330,829	432,977,156	1.63%
COURIER COLLECTION FEE	12,235,328	-	-	12,235,328	0.05%
ON LINE NETWORK FEES	20,812,545	8,060,528	6,703,067	35,576,140	0.13%
START UP COSTS	686,137	-	-	686,137	-
MULTI STATE FEES	-	-	25,270	25,270	-
PROVISION FOR DOUBTFUL ACCOUNTS	299,896	-	-	299,896	-
TOTAL EXPENDITURES	13,419,835,267	1,028,467,182	1,142,903,897	15,591,206,346	58.82%
CONTRIBUTIONS FOR AID TO EDUCATION AND STATE INSTITUTIONS	9,529,157,450	652,342,709	719,928,948	10,901,429,107	41.13%
TOTAL EXPENDITURES AND CONTRIBUTIONS	22,948,992,717	1,680,809,891	1,862,832,845	26,492,635,453	99.95%
REVENUES OVER (UNDER) EXPENDITURES AND CONTRIBUTIONS	10,374,676	2,519,889	(517,844)	12,376,721	0.05%
FUND BALANCE, BEGINNING OF PERIOD	-	10,374,676	12,894,565	-	-
FUND BALANCE, END OF PERIOD	\$ 10,374,676	\$ 12,894,565	\$ 12,376,721	\$ 12,376,721	0.05%

See accompanying notes to financial statements.

*Figures not covered by report of independent public accountants.



Notes to Financial Statements June 30, 2000

(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, 2000, the contribution for administrative expenses and encumbrance obligation aggregated \$17,858,405 of which \$6,664,680 was payable to the State Treasury at June 30, 2000.

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, 2000 aggregated \$719,928,948 of which \$67,928,948 was due to the State Treasury at June 30, 2000.

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, 2000 unclaimed prizes aggregating \$23,376,474 were forfeited of which \$7,009,727 is included in other income for the year ended June 30, 2000. During June 2000, the Executive Director authorized the use of \$10,000,000 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, 2000. At June 30, 2000, accounts payable and accrued expenses include \$6,713,750 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, 2000, the Commission held annuity contracts totaling \$1,192,842,062 issued through thirteen insurance companies. The projected future cost of installment prize obligations amount to \$1,830,478,531 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, 2000. 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 non-cancelable lease agreements expiring through 2005.

Future minimum lease payments are as follows:

2001	674,676
2002	666,500
2003	666,500
2004	666,500
2005	277,708

Rent expense for office facilities in 2000 was \$771,847.

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Donald T. DiFrancesco, Acting Governor
Virginia E. Haines, Executive Director

Benefits Education and Institutions
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