

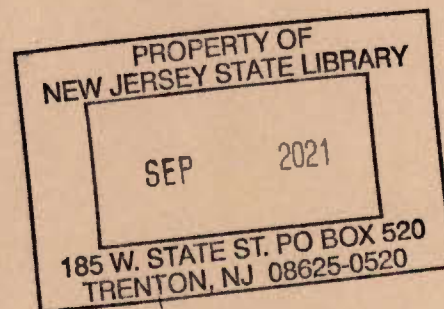
Celebrating Twenty-Five Years



New Jersey Lottery

Milestones

1995 - 96 ANNUAL REPORT



A Retrospective Look at Twenty-Five Years of The New Jersey State Lottery



A Retrospective Look at Twenty-Five Years of The New Jersey State Lottery

A Message from the Governor



STATE OF NEW JERSEY
OFFICE OF THE GOVERNOR
CN-001
TRENTON
08625
(609) 222-6000

CHRISTINE TODD WHITMAN
GOVERNOR

November 15, 1995

Dear Friends:

I would like to congratulate the New Jersey Lottery on 25 years of success.

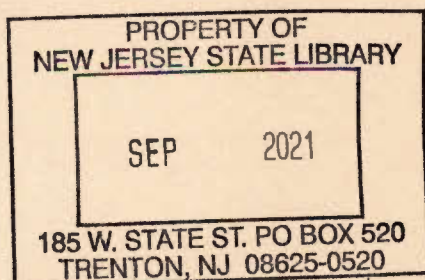
Since the Lottery's inception in 1970, more than \$7.5 billion in revenue has been generated to support education and state institutions. This year alone, the Lottery contributed more than \$647.8 million. Benefiting just about everyone in the state -- from lucky winners to small business owners, from students to veterans -- the Lottery touches millions of lives and is, in fact, the fourth-largest revenue producer for the State.

As Governor, I would like to extend my thanks and congratulations to the 5,300 Lottery agents throughout the Garden State, to the Lottery staff, and especially to the New Jersey Lottery players, who have helped to make the New Jersey Lottery one of the most prosperous and efficient lotteries in the nation.

Sincerely yours,

A handwritten signature in blue ink, reading "Christine Todd Whitman".

Christine Todd Whitman
Governor



New Jersey Lottery's First Millionaires,
Ed & Kathy Henry, appear on the
Mike Douglass Show.
(far left)

New Jersey Lottery 25th

twenty-five years ago

New Jersey residents made history,
voting into law the nation's third state
lottery. On November 4, 1969, in an
overwhelming show of support, Garden

State voters approved a constitutional amendment creating the
New Jersey Lottery. One year later, on December 16, 1970,

the first New Jersey Lottery ticket was sold, marking the historic beginning
of the New Jersey Lottery's success story.

The New Jersey Lottery's first game, The Weekly, cost 50 cents to play, and offered prizes
ranging from \$25 to \$1 million. At that time Lottery players did not pick their own numbers. Each ticket had
pre-printed number combinations. The drawings were held once a week at Lottery Headquarters and were not
televised. Players referred to local newspapers or their Lottery agent to find out the winning numbers.

The New Jersey Lottery was a success from the very beginning. In fact, in just 11 weeks,
sales exceeded the estimated goal for the entire first year.

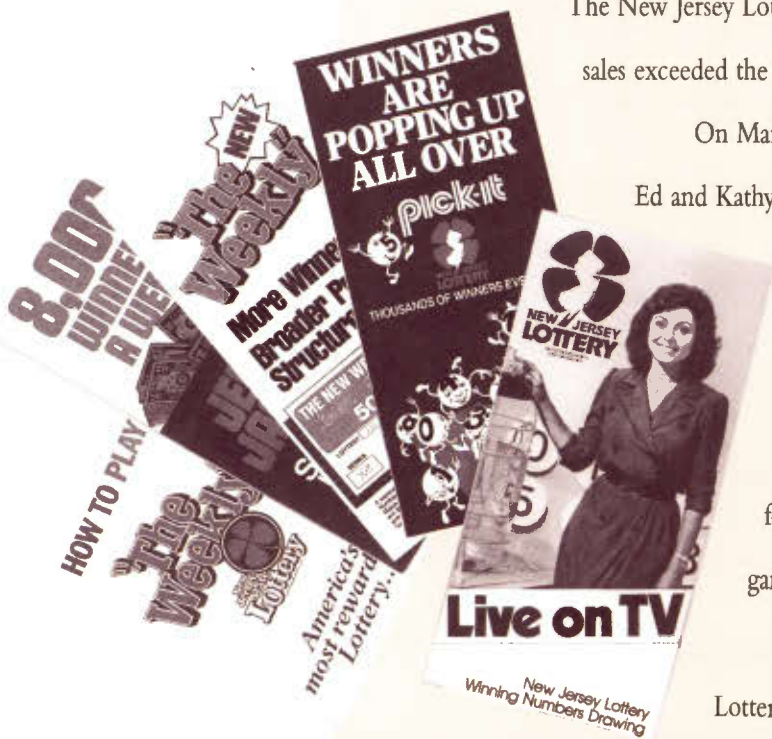
On March 17, 1971, the New Jersey Lottery named its first millionaires,

Ed and Kathy Henry of Morristown, who won

\$1 million, payable over 20 years,
in the Lottery's "50-Cent
Millionaire Drawing."

During the Lottery's first
few years, players tried their luck at games like the Weekly
game, the Daily game and the New Jersey Sweepstakes.

As a leader and innovator in the Lottery industry, the New Jersey
Lottery was the first state lottery to introduce an on-line computerized
lottery game, where players could actually choose their own numbers. That



Lottery celebrates Anniversary

game, originally called Pick-it when it began in 1975 and now known to all loyal lottery players as Pick 3, was the catalyst behind all U.S. lottery on-line games.

One month after the creation of Pick-it, the Lottery introduced its first Instant game, 7-11-21. In 1977, the first Pick 4 ticket was sold. With the addition of the Pick 4 game, players now had a variety of games to choose from with varying odds and prizes. That same year, Hela Young hosted the first televised Lottery drawing on New Jersey Network (NJN). Millions of viewers still tune into NJN every night at 7:56 p.m. hoping to hear Hela Young announce their numbers. The Lottery drawing has consistently been NJN's highest rated show.

On May 9, 1980, the Lottery introduced one of its most exciting games to date, Pick 6 Lotto. The top prize at the time, which was and continues to be based on a pari-mutuel formula, was \$10,874. However, in 1981, the prize structure was revamped and Manuel Collada of Hillside became the first Pick 6 Lotto millionaire, claiming a \$1.8 million prize on May 28, 1981. Pick 6 Lotto has been so successful over the past 20 years, sales for the game have surpassed the \$5 billion mark.

The New Jersey Lottery introduced its newest on-line game, Jersey Cash 5, on September 30, 1992. The game was designed to attract those players who desired a mid-tier, all cash prize game with better odds than Pick 6 Lotto.

And while players can still purchase a Lottery ticket for 50 cents, the New Jersey Lottery is continually modifying, expanding and improving all of its games. To illustrate the Lottery's success over the past 25 years, consider the sales during the Lottery's first fiscal year, compared to sales during fiscal year 1995. In fiscal year 1971, sales reached \$72.7 million, 25 years later, sales have skyrocketed to \$1.5 billion. After the Lottery's first full year in existence, \$33.3 million was contributed to State education and institutions, and in 1995, the Lottery contributed more than \$647.8 million. Lottery agents received \$4 million in commissions in fiscal year 1971, today agents receive more than \$85 million. And lottery players won more than \$32 million in prizes 25 years ago. In fiscal year 1995, lucky lottery winners took home more than \$809 million in prizes.



New Jersey Lottery Commissioners are appointed by the Governor for five year terms and do not receive a salary.

The New Jersey Lottery Commission



The New Jersey Lottery is a division of the Department of Treasury. **Brian W. Clymer**, State Treasurer, is also a member of the Lottery Commission. Clymer has served as Treasurer of the State of New

Jersey since January 1994. Among his major duties are managing the State's \$16 billion budget and overseeing the Taxation Division.



David Goldfarb of Verona was appointed to the Lottery Commission in 1991. He has served two terms as Vice Chairman. Since 1974, Goldfarb has been the Executive Director and Public Affairs Representative for the Tobacco and Candy Distributors Association of New Jersey.



Gregory J. Romano of Basking Ridge was appointed to the Lottery Commission in 1995 by Governor Christine Todd Whitman. Romano is a partner in the law firm of Norris, McLaughlin & Marcus in Somerville, where he specializes in corporate law and litigation.



James Cicalese of Point Pleasant Beach was re-elected as Chairman of the New Jersey Lottery Commission in 1995. Cicalese has been with the Lottery Commission for 13 years. He served four terms as Chairman of the Lottery Commission, and three terms as Vice-Chairman. Cicalese is the former Director of the Ocean County Department of Insurance & Risk Management.



Dr. Stephen T. Boswell of Wycoff was appointed to the Lottery Commission in 1994 by Governor Christine Todd Whitman. Boswell was elected to the post of Vice-Chairman in 1995. He is the president and CEO of Boswell Engineering in South Hackensack.



Morton Salkind of Secaucus was appointed to the Lottery Commission in 1992. He is president of Fox Development Corporation in Randolph and is affiliated with several manufacturer corporations. He is a former member of the Legislature and former mayor of Marlboro.



Robert Slater of Short Hills was appointed to the Lottery Commission in 1995 by Governor Christine Todd Whitman. He is Chairman of the Board of LRF Slater Companies, Inc., a real estate development company, in Livingston.

A Message from Executive Director Virginia E. Haines

In FY '95, the New Jersey Lottery raised more than \$1.5 billion in total sales revenue—a nine percent increase over FY '94 revenues.



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DEPARTMENT OF THE TREASURY
DIVISION OF STATE LOTTERY
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CHRISTINE TODD WHITMAN
GOVERNOR

BRIAN W. CLYMER
STATE TREASURER

Dear Friends:

Marking its 25th year in operation, the New Jersey Lottery has a lot to celebrate! The Lottery's 25th Anniversary year has been the most successful one to date, yielding more than \$1.5 billion in total sales revenue—a nine percent increase over last year's revenue.

As detailed in the following retrospective of the Lottery's 25 year history, the New Jersey Lottery has touched the lives of millions of State residents, whether they be players, winners, lottery fund recipients, agents or vendors. Since 1970, when the Lottery was first established, more than 351 million players received over \$8.9 billion in prizes. As the Lottery marks its silver anniversary, more than \$18 billion has been generated in revenue. Of that amount, over \$7.5 billion has been returned to the State Treasury for funding of education and institutions, and greater than \$1.6 billion has gone directly back into the State's economy, including \$974 million in sales commissions to lottery sales agents.

In FY'95 alone, the Lottery contributed more than \$647.8 million to State education and institutions, an increase of more than \$45 million or seven percent over last year.

This past fiscal year was a banner year for the New Jersey Lottery and I would like to thank our players, the Lottery employees and especially our Lottery agents for all of their hard work and dedication. As the fourth largest revenue producer in the State, after income, sales and corporate taxes, the New Jersey Lottery continues to be one of the most efficient and successful lotteries in the nation. And that should make us all proud!

Sincerely,

A handwritten signature in black ink, appearing to read "Virginia E. Haines".

Virginia E. Haines
Executive Director



*New Jersey Is An Equal Opportunity Employer
Printed on Recycled Paper and Recyclable*

In fiscal year 1995, the New Jersey Lottery contributed over \$647.8 million to State education & institutions



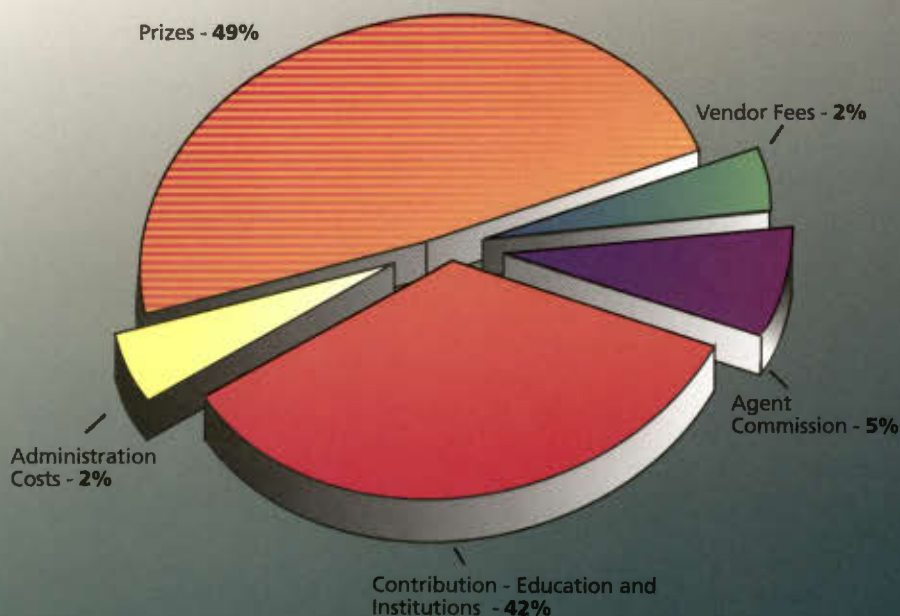
Where the Money Goes

While New Jersey State Law only requires 30 percent of gross revenues from the Lottery be used to fund education and institutions, the New Jersey Lottery historically dedicates 42 percent of its earnings to helping people throughout the State. In fiscal year 1995 alone, the Lottery contributed over \$647.8 million to State education and institutions. Since its inception 25 years ago, the New Jersey Lottery has dedicated more than \$7.5 billion to education and institutions.

At the same time, the Lottery significantly enriches the State's economy, thus benefiting virtually all New Jersey residents. Including prize money, about 58 cents of every dollar the Lottery earns goes directly back into the State's economy. This money helps create jobs, and can often mean the difference between success and failure for small, privately-owned retail businesses.

ALLOCATION OF REVENUE

For fiscal years 1971 to 1995



Since 1970, more than \$974 million has been distributed to local businesses that sell Lottery tickets, and another \$614 million has been paid to contracted private businesses that provided additional goods and services to the Lottery, such as printing and computer networks.

Over the Lottery's 25 year history, more than 351 million players won over \$8.9 billion in prizes.

New Jersey Lottery Players Make Dreams Come True

The New Jersey Lottery contributes 42
percent of its earnings to State
education & institutions

For the last 25 years, the New Jersey Lottery has been helping to make dreams come true for millions of students in the Garden State. In fact, since the Lottery's inception, educational programs in the State have received nearly \$4 billion from Lottery revenues. Many of these programs might not exist if not for the additional dollars provided by the Lottery. And for many students in New Jersey, the programs funded by the Lottery can mean the difference between success and failure.

For many urban children attending pre-school is a luxury. But thanks to the Good Starts program and New Jersey Lottery players, more than 2,400 three and four year olds from New Jersey's low-income, urban areas

are now able to participate in pre-school programs. The Good Starts program is designed to provide urban children and their families with the necessary tools to achieve academic success. Last year in Jersey City, the Good Starts program acquired national recognition from the U.S. Department of Education for its exceptionally effective compensatory education pro-

grams. Good Starts, which received \$5.9 million from the Lottery in fiscal year 1995, is just one of many worthwhile programs funded from New Jersey Lottery revenues.

The Educational Opportunity Fund (EOF), which received about \$19.7 million from Lottery revenues last year, supports thousands of undergraduate and graduate students in New Jersey. The program provides access to higher education for economically and educationally disadvantaged New Jersey residents who demonstrate the potential to succeed. The EOF program opens the door to higher education for many students who may not otherwise have the opportunity to attend college. EOF programs offer supportive services, such as counseling, tutoring, and pre-freshman summer programs.



The New Jersey Lottery
helps to improve the quality
of life for millions of New Jerseyans
living in State institutions.

25 Years of Helping New Jersey Institutions



The New Jersey Veterans Memorial Home at Menlo Park, one of three veterans homes in New Jersey funded by the Lottery, is home to more than 300 veterans ranging in ages from 45 to 102 years old. Honorably discharged veterans who are disabled and unable to procure the means necessary for their care and support are eligible for admission to the home.

Funding from the Lottery has provided the veteran's home with the necessary resources to open a Special Needs unit to care for confused and disoriented residents in a more dignified manner. And when the facility expands next year, Lottery revenues will be used to operate an Adult Day Care Center for veterans who need supervision only during the day. In fiscal year 1995, more than \$41.9 million went to aid programs benefiting over 950 veterans.

In fiscal year 1995, Centers for People with Developmental Disabilities like the Vineland Developmental Center received \$76.9 million from Lottery funds. The Vineland Developmental Center was founded in 1888 and is the oldest and largest of the State's residential facilities for the developmentally disabled. The center provides a home to 663 women with developmental disabilities. Operating on the theory that anyone can grow and develop if given the right opportunity, the center provides physical, occupational and speech therapy, health, vocational and psychological services and recreation. Each patient has access to services that promote her development and enhances her quality of life. Staff also teaches daily living skills to help individuals learn to live in the community. The center provides programs and services that include education, vocational training, community living experiences and behavior and physical management. The program is such a success that 190 people who used to live in the center, are now living in group homes and supervised apartments, and 15 former residents now hold jobs in the community.



The Economy— New Jersey Lottery's Real Winner

The New Jersey Lottery
is the fourth largest revenue producer
for the Garden State.

Everyone in the Garden State wins with the New Jersey Lottery. In fact, every evening the Lottery contributes more than \$1.7 million to the State, thereby saving New Jersey taxpayers money every day. So the real winner in the Lottery is truly the State's economy.

Nearly \$.58 of every dollar generated through the Lottery system goes back into the State's economy, and only one penny of that dollar is spent to operate and promote the Lottery, which ranks New Jersey among the most cost efficient lotteries in the United States. Evaluated on both spending efficiency and revenue returned to the government, the New Jersey Lottery placed highly among the 35 lotteries nationwide. In fact, at the conclusion of fiscal year 1995, the Lottery contributed over \$647 million to State education and institutions, and of the \$1.5 billion generated by the Lottery in fiscal year 1995, only \$21 million, or 1.3% was used for operating expenses.

The Lottery's 5,300 licensed agents are also big winners. Last year alone, lottery agents earned more than \$85 million in commissions. New Jersey Lottery agents benefit in other ways too. Many agents develop lasting relationships with hundreds of loyal Lottery players who rarely leave their stores without making other purchases.

The New Jersey Lottery is the fourth-largest revenue producer for the State, after income, sales and corporate taxes. As one of the nation's first and most successful lotteries, the New Jersey Lottery has many reasons to be proud! Over the last 25 years, the New Jersey Lottery has generated more than \$18 billion in sales. Of that amount, over \$7.5 billion has been returned to the State Treasury for funding of education and institutions, and greater than \$1.6 billion has gone directly back into the State's economy, while \$8.9 billion went to players in prizes.

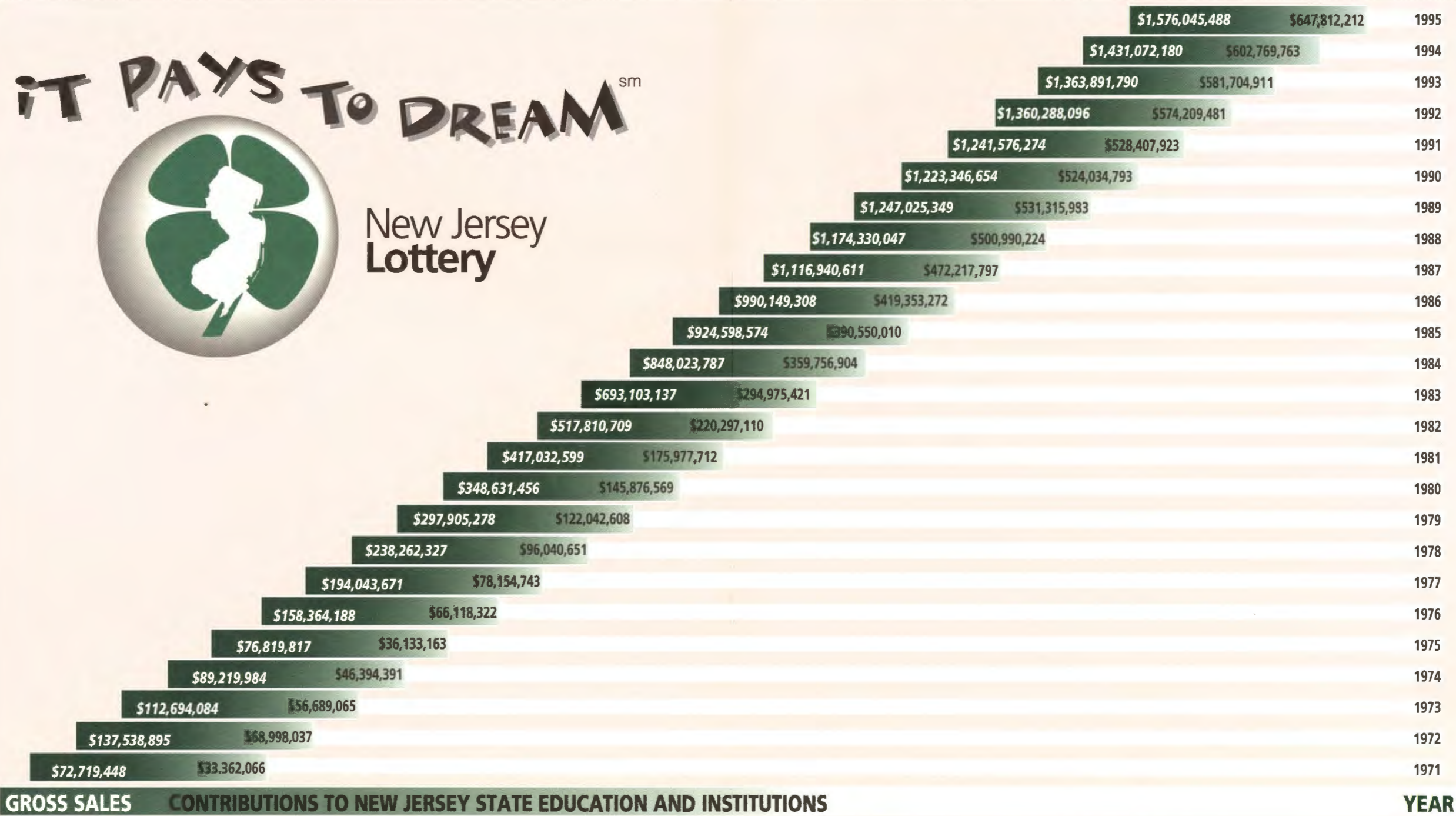


The New Jersey Lottery raised \$18 billion in sales during its 25 year history.



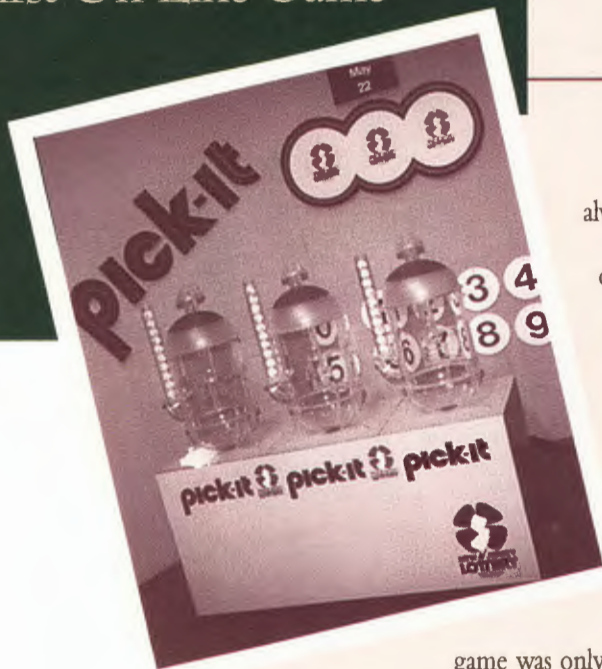
Over the past 25 years, the New Jersey Lottery has contributed more than \$7.5 billion to State education & institutions.

25 Years of Financial Success



Pick 3

The Nation's First On-Line Game



Originally dubbed Pick-It, the New Jersey Lottery's Pick 3 game has always been one of the most popular games, producing more revenue than any other Lottery game. As the nation's first on-line computerized lottery game that allowed players to select their own numbers, New Jersey's Pick-it game revolutionized the lottery industry, paving the way for a variety of on-line computerized games.

When Pick-It was first introduced on May 22, 1975, Lottery officials announced the

game was only to run for a six month trial period. Pick-It was an instant hit with New Jersey Lottery players, producing more than \$18 million in sales in just five months. In November 1975, the Lottery Commission decided not only to extend the life of the game, but also to increase the number of ticket sales locations.

Sales figures after Pick-It's first full year reached

\$53.2 million. A year later, when the Lottery began televising the results on

New Jersey Network, sales jumped more than \$40 million to \$97.4 million.

Twenty years later, Pick 3 sales have escalated to nearly \$500 million.

The name of the game was changed to Pick 3 in 1987 to conform with the Lottery's two other on-line games, Pick 4 and Pick 6. The highest payout on Pick 3 was \$869.50 in June 1975. The lowest payout was \$55.50 in July 1992. The prize amounts for Pick 3 are determined on a pari-mutuel system, meaning prize amounts depend on the total prize pool and the number of winners.

More than \$2.9 billion has been contributed to State education and institutions from Pick 3 sales during the game's twenty year history.



Pick 4

New Jersey Lottery Drawing

Hostess Hela Young

draws the

Pick 4

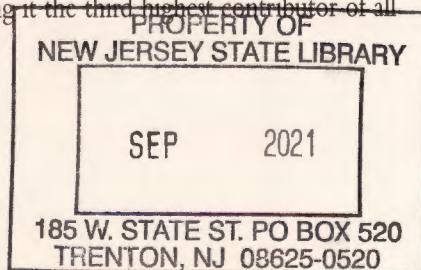
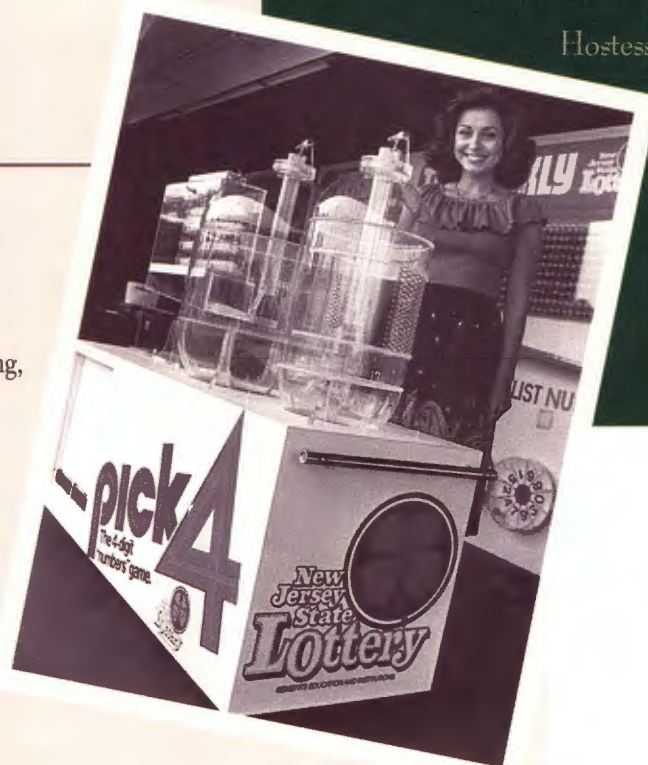
number.

The New Jersey Lottery first introduced Pick 4 on Thursday, June 9, 1977. The weekly Pick 4 was originally designed to produce larger prizes with higher odds of winning, as compared to the daily Pick 3 game.

Pick 4 players were able to bet from \$.50 up to \$5 per ticket and had a choice of two different bets, which intrigued most players. Matching a 4-digit number with the winning number in exact sequence is a straight bet, and matching a number with the winning number in any sequence is a combination bet.

When Pick 4 joined Pick 3 for live televised drawings in August of 1977, it averaged more than \$300,000 in gross weekly sales and paid out prizes as high as \$14,000 for a \$.50 straight bet. Today, many characteristics of Pick 4 remain the same. The game is still only \$.50 per bet and the straight and combination features still remain, but a few new changes have evolved over the years. A 12-way combination bet is now available in which the player picks a 4-digit number with two numbers being the same. A 6-way and a 4-way combination bet are also possible. Today, the average prizes are \$2,559 for a straight bet and \$192 for a combination bet.

In 1978, the first full year for Pick 4, sales reached an impressive \$22.2 million. In fiscal year 1995, Pick 4 sales soared over \$264 million and nearly \$111 million of that was contributed to State education and institutions. In fact, over \$1.2 billion has been contributed to the State treasury since the inception of Pick 4 in 1977, making it the third highest contributor of all Lottery games.



Jersey Cash 5

Former State Treasurer Samuel Crane and former Lottery Executive Director Frank Pelly with first Jersey Cash 5 winners (far right). Hela Young poses with fan at Jersey Cash 5 kick off.



The New Jersey Lottery debuted Jersey Cash 5 on Wednesday, September 30, 1992. It was described as an easy to play, five-digit numbers game,

featuring all cash prizes as opposed to an annuity top prize. Players choose five numbers from a field of 38 numbers or let the popular Green Machine select a Quick-5.

Jersey Cash 5 was developed to help fill a gap in the existing Lottery system by offering Lottery players a mid-tier cash prize game. It also offers a unique feature in that, if there is no top prize winner, the money will be added to the four out of five numbers prize pool, which eliminates the jackpot rollover feature as in the Pick 6 Lotto game.

After only 10 months in existence, Jersey Cash 5 game sales reached \$55.9 million. In mid-June 1994, Jersey Cash 5 increased to two drawings per week, giving the players more opportunities to win and allowing the game to contribute more to the State. In fact, in fiscal year 1995, the game nearly doubled in sales with an impressive \$109.9 million. More importantly, Jersey Cash 5 contributes \$.42 of every Jersey Cash 5 dollar to State education and institutions, which amounts to over \$46 million this year alone, and nearly \$100 million since 1993.

Due to the game's 38-number playing field, chances of winning in Jersey Cash 5 are greater than similar games being offered in neighboring states which offer a 39-number base. This, coupled with immediate cash prizes, has

made Jersey Cash 5 a very popular and successful game.



Pick 6

Two-time Pick 6 Lotto winner

Evelyn Marie Adams.

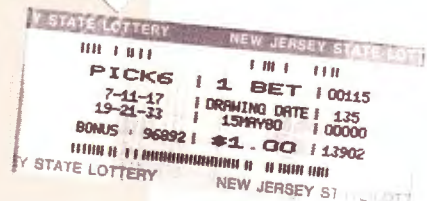
(far left) A group of

372 winners from the

Fifth Ward Athletic

Association

in Bridgeton.



In May 1980, the New Jersey Lottery introduced the Pick 6 Lotto game.

In the 15 years since the game's inception, 8.9 million people have won or shared jackpots totaling a staggering \$2.5 billion! The first Pick 6 game offered five ways to win on every ticket, and—based on a pari-mutuel formula—winners would share equally the amount of money in the pool for their prize.

There was also a Grand Prize Bonus Drawing that endures to this day, although the top prize in 1980 was \$100,000. Today, Bonus winners can win a top prize of \$1 million payable over 20 years or a share of \$220,000 in other prize money.

The first Pick 6 winner collected \$10,874 cash for a \$1 bet. (The first winning numbers were 7, 11, 17, 19, 21 and 33.) In 1982 a new Pick 6 installment prize structure was introduced that brought the top prize pool between \$750,000 and \$1 million payable in 20 annual install-

ments. The prize structure was revamped again in 1990 when the amount of money from the top prize pool was doubled from 35 percent to 70 percent. The prize revision is still in effect today.

Pick 6 Lotto produced its first millionaire in 1981 when Manuel Collada of Hillside, won \$1.8 million. The highest jackpot worth \$44.3 million was shared by four winning tickets. Cynthia Katona claimed the highest individual Pick 6 Lotto jackpot worth \$27.7 million.

Thirteen proved to be a lucky number in August 1983 when there were that many winning tickets for the \$10 million jackpot. That record number of winning tickets was matched two years later, but with a smaller jackpot. The record for the largest group of players sharing a winning ticket was set in 1993 when 372 members of the Fifth Ward Athletic Association in Bridgeton shared a \$8.6 million jackpot.

In fiscal year 1995, Pick 6 Lotto surpassed the \$5 billion mark in cumulative sales. Over the past 25 years, State education & institutions received over \$2 billion from Pick 6 sales alone.



Instants

Former Lottery Director Hazel Gluck
(center) and Tourism officials introduce
NJ & You

instant game
(far left) Lottery
employee Margaret
Square picks a
Treasure Island
instant game winner



In 1975, the New Jersey Lottery
introduced instant games in response to the

demand for a game in which a player could become a winner in a matter of seconds.

The first instant game, 7-11-21, featured instant cash prizes up to \$10,000 and special drawings for \$1,000 a week for life. At the time 7-11-21 had the largest prize award in the 4 1/2 year history of the Lottery.

The game produced about \$29 million in sales in less than three months and still holds the record for the highest net sales per week in an instant game, reaching \$1.8 million.

During the 20 year history of instant games, six different versions of 7-11-21 have appeared in the marketplace.

In the early days, the Lottery offered only one instant game at any given time and introduced a new game about every three or four months. Today, in an effort to spark player interest and fulfill the increased demand for variety, the Lottery runs seven to eight games at once and introduces a new game every two to four weeks.

In celebration of the Lottery's 25th anniversary, the Lottery premiered its most exciting instant game ever on January 5, 1995. *Lucky Anniversary* was the Lottery's first \$5 instant game offered to players with a top prize of \$250,000. *Lucky Anniversary* sold out in just one month.

In the 20 years since the Lottery introduced the first instant game, more than \$1.9 billion in sales has been generated. In fiscal year 1995 instant game sales experienced the best year yet, exceeding \$268 million—an increase of more than 44 percent over fiscal year 1994. One of the key factors in reaching this milestone was the tremendous response to the \$5 *Lucky Anniversary* and *Lucky Celebration* instant games, which generated more than \$40 million in combined sales.



Hela Young

TV Star of the New Jersey Lottery

Hela Young holds a special place in the hearts and minds of millions of New Jersey Lottery players. That's because for the past 18 years, Hela has been drawing the lucky numbers that turn Lottery players into Lottery winners.

The daughter of Holocaust survivors, Hela was born in Israel and raised in Germany before her family eventually settled in Newark. She, her husband, Peter, and their daughter, Erica, age 4, now reside in Mountainside with the family dog, appropriately named "Lotto."

Hela's rise to stardom began in 1971 when she won the coveted Miss New Jersey title and participated in the Miss America Pageant.

Although Phyllis George won the crown that year, Hela remained actively involved in the Pageant, and was among a group of state representatives to participate in a USO tour of South Vietnam.

Since then, Hela's singing and acting talents have landed her appearances on many popular soap operas, as well as featured roles in national commercials and industrial films. She has performed with such stars as Bob Hope, Rowan & Martin, and Pat Cooper, and has hosted and co-produced two cable television programs.

A graduate of Kean College, Hela was selected as the Lottery's first television hostess in 1977.

Since she began representing the Lottery, Hela has hosted more than 6,000 nightly drawings. In addition, she tours the State promoting the Lottery and it's "Where the Money Goes" program, and visits sales agent locations to meet Lottery players.

She also is the master of ceremonies of each monthly Pick 6 Lotto Bonus Million Drawing in Atlantic City.



Fiscal Year 1995 Annual Report

Report of Independent Public Accountants

To the Commissioners of the 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, 1995 and 1994, and the related combined statements of revenues, expenditures and contributions and changes in fund balances for the years 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 audits. The combined statements of revenues, expenditures and changes in fund balances for the cumulative 270 months ended June 30, 1993 and the 294 months ended June 30, 1995, were not audited by us and, accordingly, we do not express an opinion on them.

We conducted our audits 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 audits provide 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, 1995 and 1994 and the results of its operations and its changes in fund balances for the years then ended in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Princeton, New Jersey
August 29, 1995

New Jersey State Lottery Balance Sheets

June 30, 1995 with Comparative Total Memorandum Figures for 1994

	Special Revenue Fund	Agency Fund	Administrative Fund	Total (Memorandum Only) 1995	1994
ASSETS					
Cash	\$2,097,156	-	\$250	\$2,097,406	\$1,228,498
Accounts Receivable, Net	10,115,189	-	-	10,115,189	22,687,492
Interfund Receivable-Administration	-	-	5,391,939	5,391,939	2,961,957
Investments:					
Deposit Fund Contracts	-	1,105,120,210	-	1,105,120,210	993,648,851
State Of New Jersey					
Cash Management Fund	106,197,493	-	-	106,197,493	77,786,839
Deferred Expenses and Other Assets	5,940,507	-	-	5,940,507	4,543,223
Total Assets	\$124,350,345	\$1,105,120,210	\$5,392,189	\$1,234,862,744	\$1,102,856,860
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable and Accrued Liabilities	\$16,994,833	-	\$4,774,559	\$21,769,392	\$12,863,633
Obligation for Unpaid Prize Awards	35,179,665	-	-	35,179,665	23,574,475
Due To State Of New Jersey-					
Education and Institutions	57,812,212	-	-	57,812,212	61,282,691
Interfund Payable-Administration	5,391,939	-	-	5,391,939	2,961,957
Installment Prize Obligations	-	1,105,120,210	-	1,105,120,210	993,648,851
Total Liabilities	115,378,649	1,105,120,210	4,774,559	1,225,273,418	1,094,331,607
Fund Balances:					
Reserved For Encumbrances	-	-	617,630	617,630	738,287
Reserved For Prize Awards	8,721,696	-	-	8,721,696	7,536,966
Reserved For Bond Insurance	250,000	-	-	250,000	250,000
Total Fund Balances	8,971,696	-	617,630	9,589,326	8,525,253
Total Liabilities And Fund Balances	\$124,350,345	\$1,105,120,210	\$5,392,189	\$1,234,862,744	\$1,102,856,860
See notes to financial statements					

New Jersey State Lottery "Where the Money Goes"

Schedule Not Covered by Report of Independent Public Accountants

State of New Jersey Programs Supported by State Lottery Resources For Fiscal Year 1995					
Program:	Amounts:	Program:	Amounts:	Program:	Amounts:
DEPARTMENT OF CORRECTIONS		Math/Science Initiative	780,000	Small Business Entrepreneurship at Rutgers	65,000
Institutional Control,		New Jersey School for the Arts	143,000	Womens Chair Studies at Douglass College	43,000
Supervision & Rehabilitation:					
Adult Institutions	\$90,430,000	DEPARTMENT OF MILITARY AND VETERAN AFFAIRS		DEPARTMENT OF STATE	
Youth and Juvenile Institutions	30,152,000	Operation of Homes for		Opportunity Program Grants	19,713,000
Institutional Care,		Disabled Soldiers	41,948,000	Supplementary Education	
Treatment & Rehabilitation:				Program Grants	10,199,000
Adult Institutions	37,312,000	DEPARTMENT OF TREASURY		Higher Education for	
Youth and Juvenile Institutions	10,502,000	Aid to County Colleges for		Special Needs Students	713,000
Maintenance of Physical Plant	14,889,000	Operational Costs	120,954,000		
		Aid to Independent Colleges		DEPARTMENT OF HUMAN SERVICES	
DEPARTMENT OF EDUCATION		and Universities	20,000,000	Operation of State Psychiatric Hospitals	78,857,000
Non-Public School Aid	61,456,000	Edward J. Blaustein Dist.		Operation of Centers for	
Marie Katzenbach School for the Deaf	7,504,000	Scholars Program	3,853,000	Developmentally Disabled	76,919,000
School Nutrition	6,562,000	Garden State Scholarship	2,011,000		
Good Starts	5,911,000	Veterinary Medicine Education	1,441,000		
Statewide Assessment		Governor's School	974,000		
Program (Grades 4,8,11)	4,165,000	Schools Of Professional Nursing	316,000	TOTAL	\$647,812,000

New Jersey State Lottery Comparative Statements

Combined Statements of Revenues, Expenditures and Changes in Fund Balances

	CUMULATIVE 270 MONTHS *ENDED JUNE 30, 1993	12 MONTHS ENDED JUNE 30, 1994	12 MONTHS ENDED JUNE 30, 1995	CUMULATIVE 294 MONTHS *ENDED JUNE 30, 1995	%
REVENUES:					
GROSS SALES	\$14,844,316,083	\$1,431,072,180	\$1,576,045,488	\$17,851,433,751	98.66%
FORFEITED PRIZES	165,503,100	13,919,527	10,994,164	190,416,791	1.05%
INTEREST INCOME	44,304,144	1,695,391	3,403,310	49,402,845	0.27%
MISCELLANEOUS INCOME	3,097,911	470,775	499,490	4,068,176	0.02%
	15,057,221,238	1,447,157,873	1,590,942,452	18,095,321,563	100.00%
EXPENDITURES:					
PRIZE EXPENSE	7,390,522,352	722,641,537	809,541,436	8,922,705,325	49.31%
COMMISSION TO AGENTS & BANKS	811,171,444	77,448,943	85,505,607	974,125,994	5.38%
OPERATING EXPENSES	259,408,623	18,328,786	20,797,568	298,534,977	1.65%
GAME CONTRACTOR FEES	255,572,030	23,396,615	25,431,331	304,399,976	1.68%
COURIER COLLECTION FEE	9,242,984	763,592	790,225	10,796,801	0.06%
START UP COSTS	686,137	-	-	686,137	-
PROVISION FOR DOUBTFUL ACCOUNTS	299,896	-	-	299,896	-
	8,726,903,466	842,579,473	942,066,167	10,511,549,106	58.08%
CONTRIBUTION FOR AID TO EDUCATION AND STATE INSTITUTIONS	6,323,601,156	602,769,763	647,812,212	7,574,183,131	41.86%
TOTAL EXPENDITURES AND CONTRIBUTION	15,050,504,622	1,445,349,236	1,589,878,379	18,085,732,237	99.94%
REVENUES OVER EXPENDITURES AND CONTRUBUTION	6,716,616	1,808,637	1,064,073	9,589,326	0.06%
FUND BALANCES, BEGINNING OF PERIOD	-	6,716,616	8,525,253	-	-
FUND BALANCES, END OF PERIOD	\$6,716,616	\$8,525,253	\$9,589,326	\$9,589,326	0.06%

See notes to financial statements.

*Figures not covered by report of independent public accountants.



(1) Organization and accounting practices:

Authorizing legislation—The New Jersey State Lottery Commission 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 Treasury). 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 as part of several funds included in the State of New Jersey's annual financial report. The following funds are included in the Commission's financial statements—

Special Revenue Fund—This fund is established to account for revenue and expenditures of lottery games and is 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 the operating expenditures for the administration of the Commission and is 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 years ended June 30, 1995, and 1994, the Commission's contribution for administrative expenses and its encumbrance obligation aggregated \$21,051,670 and \$18,395,075, respectively, of which \$5,391,939 was payable to the Treasury at June 30, 1995.

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 years ended June 30, 1995 and 1994 aggregated \$647,812,212 and \$602,769,763, respectively, of which \$57,812,212 was due to the State of New Jersey at June 30, 1995.

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 to aid education and State institutions. In June 1995 and 1994, the Executive Director authorized an additional contribution to aid education and State institutions totaling \$6,800,000 and \$10,000,000, respectively. These amounts are included in other income for the years ended June 30, 1995 and 1994. For the years ended June 30, 1995, and 1994, unclaimed prizes aggregating \$14,016,863 and \$13,046,827, respectively, were forfeited of which \$4,194,164 and \$3,919,527, respectively, are included in other income. At June 30, 1995, accounts payable and accrued liabilities include \$3,036,625 related to forfeited prizes.

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

—Pick-Three, Pick-Four, Pick-Six Lotto and Jersey Cash 5 on the drawing date.

—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.

Cash Management Fund—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 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 in the General Fixed Asset Account Group of the State of New Jersey. Items of this nature are recognized as expenditures in the statement of revenues, expenditures and contributions of the Commission during the period in which they are acquired. Equipment and inventory are estimated to be immaterial by management of the Commission.

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, 1995 the projected future costs of prize obligations amount to \$1,929,887,506 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 for the Commission.

(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 rating 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 issuer is subject to change. At June 30, 1995, the Commission held annuity contracts totaling \$1,105,120,210 issued through twelve insurance companies. A significant portion of the Commission's investment in annuity contracts at such date is concentrated among four companies.

Mutual Benefit Life, with whom the Commission has \$17,538,889 outstanding in annuity contracts as of June 30, 1995, has been placed in temporary rehabilitation by their regulatory authority. The management of Mutual Benefit Life has stated that it 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 or the financial position or results of operations of the Commission.

The Commission also held annuity contracts issued by Capitol Life Insurance Company which has also been placed in temporary rehabilitation by its respective regulatory authority. In December 1994, Capital Life Insurance Company purchased the annuities held by the Commission at their accreted value of \$14,500,026. No gain or loss resulted from this transaction.

The estimated fair value of annuity contracts approximates the carrying value reflected in the accompanying balance sheets as of June 30, 1995 and 1994. 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 does not expect that these matters will have a material adverse effect on the financial position or results of operations of the Commission.

(4) Commitments and contingencies—The Commission leases certain office facilities under noncancellable lease agreements expiring through 2010.

Future minimum lease payments are as follows:

1996	\$745,403
1997	745,403
1998	745,403
1999	745,403
2000	745,403
Thereafter	4,093,257

Rent expense in 1995 and 1994 was \$995,350 and \$953,300, respectively.

Angelo Pharmacy, Newark ✶ Aratow Pharmacy, Elizabeth ✶ Arnold Drugs Inc., Lyndhurst ✶ Bernies Food Market, Wenonah ✶ Blackwood Liquor Store, Blackwood ✶ Bobbink Liquors, Clifton ✶ Breton Woods Pharmacy, Breton Woods ✶ Brookfield Bowl, Trenton ✶ Burlington Diner, Burlington ✶ Butler Pharmacy Inc., Point Pleasant ✶ C T Campi Variety, Trenton ✶ Camp Drugs Inc., Irvington ✶ Carasso Market, Milltown ✶ Cardiff Circle Liquor Store, Cardiff ✶ Cards Etc., Pleasantville ✶ Carteret Drugs Inc., Jersey City ✶ Chicky's Village, Orange ✶ Clancys Beach Pharmacy, Beachwood ✶ Club Elmour, Union ✶ Cocola Liquors, Hamilton Square ✶ Colliers Liquor Store, Cape May ✶ Corner Deli, Perth Amboy ✶ Crescent Bottling Co., Camden ✶ Dar Mar News Co., Newark ✶ Debbies Everything, Newark ✶ DiStefano Liquors, Roselle Park ✶ Dorsi Store, Stirling ✶ Drug City Inc., East Rutherford ✶ Drug Fair Inc., Highland Park ✶ Dunphys Hawaiian, Harrison ✶ East Park Pharmacy Inc., Willingboro ✶ Edison Stationery Office, Edison ✶ F & M Liquors, Beverly ✶ Ferrara Drugs Inc., Jersey City ✶ Fishers Market, Vineland ✶ Forked River Pharmacy Inc., Forked River ✶ Franks Market, Audubon ✶ Gallos Drug Inc., Rochelle Park ✶ Genes Clean & Tailor, Pennsauken ✶ Harold Deli, Palisades Park ✶ Harris Newstand, Maple Shade ✶ Harrys Cut Rate, Bordentown ✶ Hidi's Country Deli, Garwood ✶ Hillmans Luncheonette, Maywood ✶ Hob Noh Shop, West Milford ✶ House of Drugs, Kearny ✶ Howell Pharmacy Inc., Howell ✶ Hudacko Pharmacy, Bayonne ✶ Hummels Liquors Inc., Bridgeton ✶ Hyman Liquors, Trenton ✶ Ideal Food, Fairlawn ✶ J & J News Agency, Vineland ✶ J & M Stop N Shop, Bayonne ✶ Jay Kay Liquor Inc., Bordentown ✶ Joseph's Pharmacy, North Bergen ✶ Josephs Pharmacy Inc., Bogota ✶ Kellys News, National Park ✶ Kurts Inc., Salem ✶ Kurtz Cigar Store, Bound Brook ✶ L & S Drugs, Belleville ✶ Lanoka Farms, Lanoka Harbor ✶ Lees Apothecary Inc., Lakewood ✶ Liquor Mill Inc., Magnolia ✶ M Caggiano & Sons, Montclair ✶ Maes Tavern & Lunch, Paterson ✶ Maple Valley Liquor Store, Clifton ✶ Market Boy Liquor, Old Bridge ✶ Marras Drug Store, Secaucus ✶ Medical Center Pharmacy, Livingston ✶ Melois Liquor Store, Montague ✶ Midvale Sweet Shop, Wanaque ✶ Monmouth Beach Mart, Monmouth Beach ✶ Morris County Drugs Inc., Randolph ✶ Mountain Variety, Springfield ✶ Narciso Liquor Inc., Asbury Park ✶ Navesink Country Store, Navesink ✶ Nutley Sweet Shop, Nutley ✶ Nykuns Groceries, Great Meadows ✶ Pascack Pharmacy Inc., Hilldale ✶ Passaic County Stationary, Paterson ✶ Pauls Liquor Store, Trenton ✶ Phillips Stationers, Midland Park ✶ Pitman News Agency, Pitman ✶ Prices Deli, Phillipsburg ✶ Publix Pharmacy, Woodbridge ✶ Red Circle, Camden ✶ Ryle Park Hardware, West Paterson ✶ Riverside News Inc., Riverside ✶ Rotondo Oak Ridge Liquors, Clark ✶ Sanhican Liquor Shoppe Inc., Trenton ✶ Shertolis Stationery, Minotola ✶ Shop Rite, Carteret ✶ Shop Rite, Kearny ✶ Silk City Liquors, Paterson ✶ Silver Fox Sweet Shop, New Brunswick ✶ Silvermans Stationery, Livingston ✶ Silverton Pharmacy, Toms River ✶ Snyders News Shop Inc., Salem ✶ Sorinos Liquor Store, Medford ✶ Sunset Tavern, Burlington ✶ Sutera Brothers Inc., Elizabeth ✶ Tarallos Deli Liquors, South Amboy ✶ Tigers Deli, East Windsor ✶ Tony's Stationary, Hawthorn ✶ Trezza Liquor Inc., Middletown ✶ Turetskys Liquor Inc., Garfield ✶ Variety Drugs, Garfield ✶ Wallington Drugs Inc., Wallington ✶ Wendy Drug Co., Middletown



The New Jersey Lottery salutes its 25 year employees: Senior Field Representative John Innocenzi, Deputy Director of Marketing and Sales Linda Melone, Operations Manager Edie Mangione, and Chief of Investigators Carl Pletenyik.

