

**NEW JERSEY'S WINNING TICKET**  
**FISCAL YEAR 1998 ANNUAL REPORT**



NEW JERSEY  
LOTTERY



## LETTER FROM THE EXECUTIVE DIRECTOR



● ● ● ● ● **CHRISTIE WHITMAN**  
Governor

Dear Friends:

The New Jersey Lottery is operated more like a private business than a State agency. The Lottery's main goal is to raise revenue, just like every corporation in the Garden State. The only difference between the Lottery's mission and those of other companies in the State is everyone in New Jersey benefits from Lottery profits. Since its inception 28 years ago, the Lottery has contributed over \$9.5 billion to State education and institutions.

The Lottery implements corporate strategies typically used by New Jersey's business community, and my job is similar to that of a CEO of a major corporation. I'm constantly looking for innovative ways to operate the Lottery more efficiently, while increasing sales, expanding ticket locations and services, and keeping up with the newest technology. I'm proud to report that during Fiscal Year 1998, the Lottery has successfully accomplished these challenging objectives.

As one of the country's most cost efficient lotteries, the New Jersey Lottery spends less than one percent of its revenue to operate and promote its business. In FY'98, the Lottery raised more than \$1.6 billion in sales. Of that amount, only \$16 million was used for operating expenditures, allowing the Lottery to contribute \$642 million to the Department of the Treasury to supplement educational funds and support important state institutions.

During FY'98, the Lottery completed an agent expansion program, increasing the number of agents from 5,300 to 6,000 in six months. By expanding the agent network, Lottery products are now more accessible to customers, and more business owners are able to profit from Lottery sales. The expansion also contributed to the overall increase in sales.

It's always been one of the Lottery's top priorities to introduce innovative and entertaining products to satisfy our players' needs. During FY'98, we expanded the instant ticket product line to include 45 new games. The result: a 35 percent increase in instant ticket sales during FY'98. And for the first time in six years, the New Jersey Lottery added a new game to its veteran lineup of on-line, computerized games. LOTZEE was introduced on June 14, 1998, and brought in nearly \$3 million in sales during the last two weeks of FY'98.

All these additions to the Lottery's product line would not have been possible without the advanced technology of the Lottery's on-line system. Ongoing software changes will allow the Lottery to further enhance its capabilities in the next millennium. As the State's fourth largest revenue producer, our business is dedicated to helping New Jersey's economy prosper.

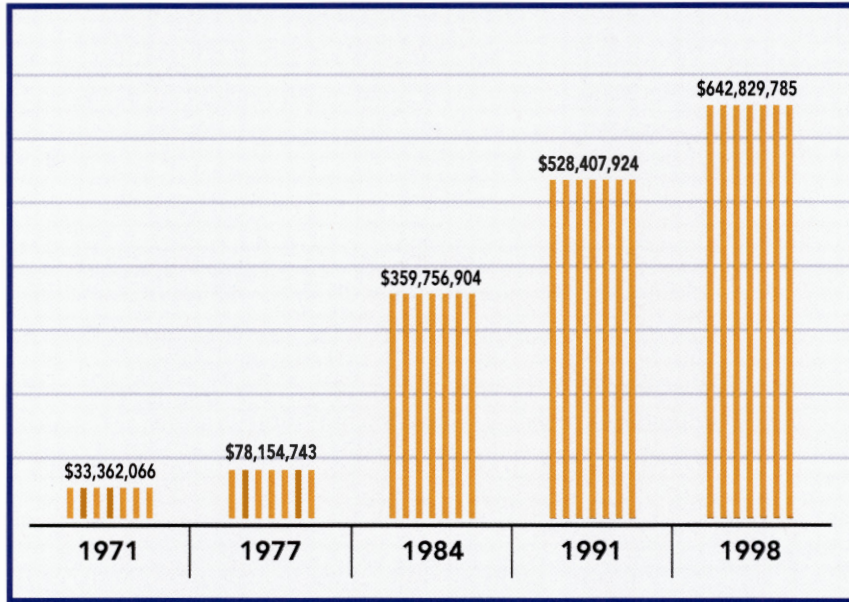
Sincerely,

A handwritten signature in black ink, appearing to read "Virginia E. Haines". The signature is fluid and cursive.

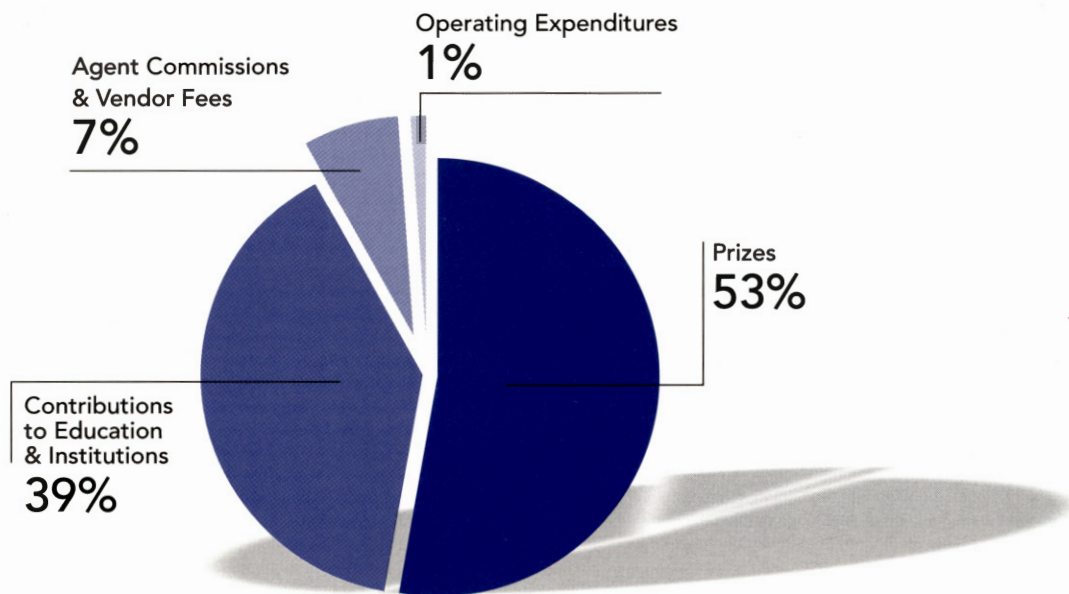
Virginia E. Haines  
Executive Director

● ● ● ● ● **VIRGINIA E. HAINES**  
Executive Director

# LOTTERY CONTRIBUTIONS TO EDUCATION AND INSTITUTIONS



## FISCAL YEAR 1998 ALLOCATION OF REVENUE



## WHERE DOES THE MONEY GO?



..... SURYAKANT PATEL, OWNER OF JACK'S STATIONERY IN KEYPORT, MONMOUTH COUNTY, EARNED ENOUGH MONEY IN LOTTERY SALES COMMISSIONS TO PUT HIS TWO CHILDREN THROUGH COLLEGE. PATEL, A LOTTERY AGENT FOR 19 YEARS, EXCEEDED \$1.1 MILLION IN TICKET SALES DURING FY'98, BRINGING IN OVER \$61,000 IN COMMISSIONS.



..... KAREN UMSTEAD OF PEMBERTON TOWNSHIP IS A FRESHMAN AT THE COLLEGE OF NEW JERSEY IN EWING, THANKS, IN PART, TO THE NEW JERSEY LOTTERY. UMSTEAD WAS AWARDED A SCHOLARSHIP FROM THE EDWARD J. BLOUSTEIN DISTINGUISHED SCHOLARS PROGRAM, WHICH RECEIVED \$3.6 MILLION FROM THE NEW JERSEY LOTTERY IN FY'98.

Did you know every New Jersey Lottery ticket is a winning ticket? That's because 39 cents of every dollar spent on the Lottery goes back to the State to support education and institutions, saving taxpayers over \$600 million a year.

New Jersey Lottery proceeds help pay for school lunches for underprivileged children, scholarships for gifted students, homes for disabled soldiers and developmentally disabled individuals, and treatment facilities for troubled youths. In fact, in Fiscal Year 1998, the New Jersey Lottery returned more than \$642 million to the State to fund educational programs and State-run institutions. During the Lottery's 28-year history, these programs and institutions have received over \$9.5 billion from Lottery funds.

Six thousand businesses throughout the Garden State prosper from their partnership with the New Jersey Lottery. Not only do these Lottery agents increase their overall profits from Lottery ticket sales, but many store owners form lasting relationships with loyal Lottery players who visit their stores daily. During FY'98, agents earned \$89 million in commissions.

FY'98 was also a profitable year for Lottery players. The Lottery awarded an unprecedented \$868 million in prizes to 52 million winners last year.

The Lottery is truly New Jersey's winning ticket, touching the lives of nearly every Garden State resident. From college students, to veterans, to business owners, to lucky winners, everybody wins with the New Jersey Lottery.



..... ELEANOR BOYER OF SOMERVILLE BECAME AN OVERNIGHT CELEBRITY AFTER SHE DONATED MORE THAN HALF OF HER PICK 6 LOTTO WINNINGS TO HER HOMETOWN CHURCH. BOYER CHOSE CASH OPTION FOR THE \$20 MILLION PICK 6 LOTTO DRAWING ON NOVEMBER 3, 1997, WINNING \$11.8 MILLION BEFORE TAXES.

# STATE OF NEW JERSEY PROGRAMS SUPPORTED BY STATE LOTTERY RESOURCES

For Fiscal Year Ended June 30, 1998

## DEPARTMENT OF EDUCATION

Governor's School .....	\$ 955,000
Marie Katzenbach School for the Deaf .....	2,544,000
New Jersey School of the Arts .....	81,000
Non-Public School Aid .....	34,916,000
School Nutrition .....	6,565,000
Statewide Assessment Program (Grades 4, 8, 11) .....	6,587,000
<b>Total Department of Education .....</b>	<b>51,648,000</b>

## DEPARTMENT OF HIGHER EDUCATION

Aid to County Colleges .....	100,186,000
Aid to Independent Colleges & Universities .....	18,645,000
Edward J. Bloustein Dist. Scholars Program .....	3,600,000
Garden State Scholarship .....	1,330,000
Higher Education Facilities Trust Fund - DS .....	12,718,000
Higher Education for Special Needs Students .....	708,000
Opportunity Program Grants .....	20,401,000
Supplementary Education Program Grants .....	11,000,000
Veterinary Medicine Education .....	1,194,000
<b>Total Department of Higher Education .....</b>	<b>169,782,000</b>

## DEPARTMENT OF HUMAN SERVICES

Operation of Centers for Developmentally Disabled .....	173,112,000
Operation of State Psychiatric Hospitals .....	144,961,000
<b>Total Department of Human Services .....</b>	<b>318,073,000</b>

## DEPARTMENT OF LAW & PUBLIC SAFETY

Institutional Control and Supervision - Juvenile Services .....	3,231,000
Institutional Care and Treatment - Juvenile Services .....	658,000
Maintenance of Physical Plant - Juvenile Services .....	541,000
<b>Total Department of Law &amp; Public Safety .....</b>	<b>4,430,000</b>

## DEPARTMENT OF MILITARY & VETERANS AFFAIRS

Operation of Homes for Disabled Soldiers .....	18,625,000
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## DEPARTMENT OF CORRECTIONS

### Institutional Control and Supervision:

Adult Institutions .....	41,309,000
Youth Institutions .....	9,250,000

### Institutional Care and Treatment:

Adult Institutions .....	18,273,000
Youth Institutions .....	5,310,000
Maintenance of Physical Plant .....	6,130,000

**Total Department of Corrections .....** 80,272,000

**Total .....** \$ 642,830,000

The amount of New Jersey Lottery funding in the programs designated above may only represent a portion of the total State funding. The balance of the appropriation is funded by the General State Fund.

LOTZEE, the game that's a little different and lotza fun, swept New Jersey off its feet this summer. For the first time in six years, the New Jersey Lottery added a new computerized game to its veteran line-up of Pick 3, Pick 4, Jersey Cash 5, and Pick 6 Lotto. LOTZEE debuted June 14, 1998, and the first drawing was Saturday, June 20, 1998.



Because of the popularity of instant tickets over the past few years, Lottery officials wanted to design a new on-line game that plays like an instant game. LOTZEE fits the mold perfectly. Like an instant game, LOTZEE offers multiple ways to win on every ticket.

Each LOTZEE ticket has 21 sets of four two-digit numbers ranging from 00-99. Players may choose their set of four two-digit numbers for the \$500,000 top-prize tier only and the Green Machine automatically generates the 20 remaining sets of numbers. If a player chooses a Quick-Pick selection, the Green Machine will generate all 21 sets.

There are 63 ways to win on a LOTZEE ticket. By matching the four two-digit numbers in the top-prize tier, players can win \$500,000. Players can match a set of four two-digit numbers in other prize tiers to win \$100,000, \$50,000, \$25,000, or \$10,000. Players can also win a prize for matching just three or even two numbers.

LOTZEE sales far exceeded expectations within the first two weeks. Sales projections were approximately \$1.2 million a week, but LOTZEE surpassed that goal by averaging \$1.5 million a week. In the last two weeks of Fiscal Year 1998, LOTZEE's total sales were almost \$3 million, contributing \$1.2 million to State education and institutions.



● ● ● ● ● THE VINCENT FAMILY OF CAMDEN COUNTY MADE LOTTERY HISTORY BY BECOMING THE FIRST TOP PRIZE WINNERS IN THE LOTTERY'S NEW COMPUTERIZED GAME, LOTZEE. PICTURED HERE WITH NEW JERSEY LOTTERY EXECUTIVE DIRECTOR VIRGINIA E. HAINES, THE VINCENTS RECEIVED A CHECK FOR \$500,000 FOR WINNING THE LOTZEE TOP PRIZE ON JUNE 27, 1998.

*(Standing - Julie Ciabattoni, Robert Vincent, Lottery Executive Director Virginia E. Haines, Sharon Penn. Sitting - Edward Vincent and Edward Vincent, Sr.)*

## INSTANT TICKETS

For the first time in the New Jersey Lottery's 28-year history, instant tickets were the number-one selling product. In Fiscal Year 1998, the instant ticket product line experienced a 35% increase in sales, exceeding sales projections for the year. In fact, the New Jersey Lottery had the second highest increase in instant sales among all lotteries nationwide.

FY'98 was the first full year the Lottery's new on-line and distribution systems were in place. With the enhanced capabilities of the modernized system and player demand on the rise, the Lottery was able to increase the number of products in the marketplace from 12 to 16 games, to an unprecedented 45 games within one year.

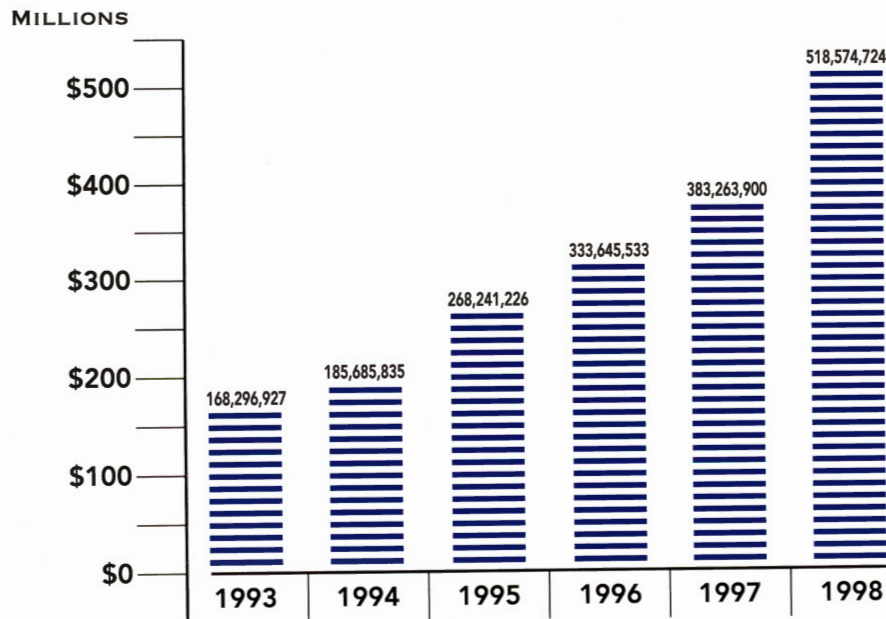
Along with perpetual games like *Bingo* and *Win For Life*, the Lottery debuted a variety of specialty games, including: *Twilight Zone™*, *Star Trek™*, *Wheel of Fortune®*, and *Harley Davidson®*. These niche games attracted new players to the Lottery, contributing to the overall success of the instant product line.

During FY'98, New Jersey was also one of the few states to introduce a \$10 instant ticket with a tax-free prize of \$1,000,000. This holiday-themed game, *\$1,000,000 Holiday*, came with a gift-giving envelope and proved to be a favorite among players. In fact, because of the game's overwhelming success, the Lottery introduced a second \$10 game later in the year.

Instant ticket sales alone contributed almost \$161 million to State education and institutions in FY'98, a 27% increase from 1997. In addition, nearly \$313 million was paid out in prizes to winners, a 38% increase from last year.

As the Lottery enters the new millennium, instant tickets are expected to remain the most popular product.

## INSTANT TICKET SALES



## THE NEW JERSEY LOTTERY COMMISSION



**JAMES A. DIELEUTERIO,**  
*Treasurer*

The New Jersey Lottery is a division of the Department of the Treasury. DiEleuterio of Hamilton serves as State Treasurer and is a member of the Lottery Commission. Among his major duties are managing the State's budget and overseeing the Taxation Division. DiEleuterio is only the second career civil servant in the State's history to be named State Treasurer.



**DR. STEPHEN T. BOSWELL**

of Wycoff was elected as Chairman of the New Jersey Lottery Commission in 1996 and is now serving his second term. Boswell was appointed to the Lottery Commission in 1994 by Governor Christie Whitman and was elected to the post of Vice-Chairman in 1995. He is the President and CEO of Boswell Engineering in South Hackensack.



**GREGORY J. ROMANO**

of Basking Ridge was elected Vice-Chairman of the New Jersey Lottery Commission in 1996 and is now serving his second term. Romano was appointed to the Lottery Commission in 1995 by Governor Christie Whitman. Romano is General Counsel and Senior Vice President of Custom Risk Solutions, Inc. in Princeton, a subsidiary of AON Group, Inc.



**JAMES CICALEASE**

of Point Pleasant Beach, a 16-year veteran of the Lottery Commission, was appointed in 1982. He served five 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. ANTHONY CAPUTO**

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



**DAVID GOLDFARB**

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



**ROBERT SLATER**

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

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

# INDEPENDENT AUDITORS' REPORT



Peat Marwick LLP  
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, 1998, and the related statement of revenues, expenditures, contributions, and changes in fund balance for the year then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission as of June 30, 1998, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

The combined statements of revenues, expenditures, contributions, and changes in fund balance for the cumulative 306 months ended June 30, 1996, and the cumulative 330 months ended June 30, 1998, were not audited by us and, accordingly, we do not express an opinion on them.

KPMG Peat Marwick LLP  
September 21, 1998

## NEW JERSEY STATE LOTTERY BALANCE SHEET, JUNE 30, 1998 (With Comparative Totals for 1997)

	Special Revenue Fund	Agency Fund	Administrative Fund	Total (Memorandum Only)	
				1998	1997
<b>ASSETS</b>					
Cash	\$ 1,066,380	\$ -	\$ 250	\$ 1,066,630	\$ 1,706,689
Accounts Receivable, Net (note 1)	20,720,919	-	-	20,720,919	18,200,692
Interfund Receivable - Administration	-	-	7,570,651	7,570,651	2,054,653
Investments:					
Deposit Fund Contracts (note 2)	-	1,254,572,668	-	1,254,572,668	1,271,321,102
State of New Jersey Cash Management Fund	89,332,644	-	-	89,332,644	100,793,824
Deferred Expenses and Other Assets	8,078,202	-	-	8,078,202	7,050,043
<b>Total Assets</b>	<b>\$ 119,198,145</b>	<b>\$1,254,572,668</b>	<b>\$ 7,570,901</b>	<b>\$1,381,341,714</b>	<b>\$1,401,127,003</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts Payable and Accrued Liabilities	\$ 11,329,986	\$ -	\$ 7,207,840	\$ 18,537,826	\$ 12,108,371
Obligation for Unpaid Prize Awards	31,456,108	-	-	31,456,108	27,313,366
Due to State of New Jersey - Education and Institutions	58,829,785	-	-	58,829,785	79,024,961
Interfund Payable - Administration	7,570,651	-	-	7,570,651	2,054,653
Installment Prize Obligations	-	1,254,572,668	-	1,254,572,668	1,271,321,102
<b>Total Liabilities</b>	<b>109,186,530</b>	<b>1,254,572,668</b>	<b>7,207,840</b>	<b>1,370,967,038</b>	<b>1,391,822,453</b>
<b>Fund Balances:</b>					
Reserve for Encumbrances	-	-	363,061	363,061	139,389
Reserve for Prize Awards	9,761,615	-	-	9,761,615	8,915,161
Reserve for Bond Insurance	250,000	-	-	250,000	250,000
<b>Total Fund Balances</b>	<b>10,011,615</b>	<b>-</b>	<b>363,061</b>	<b>10,374,676</b>	<b>9,304,550</b>
<b>Total Liabilities And Fund Balances</b>	<b>\$ 119,198,144</b>	<b>\$1,254,572,668</b>	<b>\$ 7,570,901</b>	<b>\$1,381,341,713</b>	<b>\$1,401,127,003</b>

See accompanying notes to financial statements.

# NEW JERSEY STATE LOTTERY COMPARATIVE STATEMENTS

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

	Cumulative 306 Months *Ended June 30, 1996	12 Months Ended June 30, 1997	12 Months Ended June 30, 1998	Cumulative 330 Months *Ended June 30, 1998	%
<b>REVENUES</b>					
Gross Sales	\$ 19,439,462,626	\$ 1,556,078,320	\$ 1,630,341,833	\$ 22,625,882,779	98.54%
Forfeited Prizes	220,163,301	29,024,259	13,806,485	262,994,045	1.15%
Interest Income	54,290,080	4,990,096	4,072,748	63,352,924	0.28%
Miscellaneous Income	4,792,442	1,195,262	1,149,941	7,137,645	0.03%
<b>Total Revenues</b>	<b>19,718,708,449</b>	<b>1,591,287,937</b>	<b>1,649,371,007</b>	<b>22,959,367,393</b>	<b>100.00%</b>
<b>EXPENDITURES</b>					
Allocation for Prize Awards	9,748,119,749	812,726,304	868,409,846	11,429,255,879	49.78%
Commission to Agents and Banks	1,060,386,987	85,171,068	89,317,435	1,234,875,490	5.38%
Operating Expenditures	313,133,016	14,659,614	16,018,223	343,810,853	1.50%
Game Contractor Fees	330,039,898	23,819,393	23,999,848	377,859,139	1.65%
Courier Collection Fees	11,685,500	549,828	-	12,235,328	0.05%
On-Line Network Fees	6,301,675	6,785,126	7,725,744	20,812,545	0.09%
Start-Up Costs	686,137	-	-	686,137	-
Provision for Doubtful Accounts	299,896	-	-	299,896	-
<b>Total Expenditures</b>	<b>11,470,652,838</b>	<b>943,711,333</b>	<b>1,005,471,096</b>	<b>13,419,835,267</b>	<b>58.45%</b>
Contributions for Aid to Education and State Institutions	8,236,302,704	650,024,961	642,829,785	9,529,157,450	41.50%
<b>Total Expenditures and Contributions</b>	<b>19,706,955,542</b>	<b>1,593,736,294</b>	<b>1,648,300,881</b>	<b>22,948,992,717</b>	<b>99.95%</b>
Revenues Over (Under) Expenditures and Contributions	11,752,907	(2,448,357)	1,070,126	10,374,676	0.05%
Fund Balance, Beginning of Period	-	11,752,907	9,304,550	-	-
Fund Balance, End of Period	\$ 11,752,907	\$ 9,304,550	\$ 10,374,676	\$ 10,374,676	0.05%

See accompanying notes to financial statements.

\*Figures not covered by report of independent public accountants.

# NOTES TO FINANCIAL STATEMENTS JUNE 30, 1998

## (1) Organization and accounting practices

### Reporting entity

The New Jersey State Lottery Commission (the "Commission") was established in 1970 pursuant to the "State Lottery Law," N.J.S.A. 5:9-1, et seq. The Commission, which is a component unit of the State of New Jersey, operates within the Department of Treasury of the State of New Jersey. The Commission's financial statements include the operations for which the Commission is financially accountable and exercises oversight responsibility. The Commission is authorized and empowered to promulgate rules and regulations regarding the conduct of lottery games, including the price or prices of tickets, the number and size of prizes on winning tickets, the licensing of agents and the apportionment of ticket revenues.

### Basis of accounting

The Commission prepares its financial statements using the modified accrual basis of accounting for governmental fund types. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Expenditures are recorded when the liability is incurred, if measurable. The following is a summary of the significant accounting practices of the Commission.

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

### Special Revenue Fund

This fund is established to account for revenues and expenditures of lottery games which are included in the State's Special Revenue Fund.

### Agency Fund

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

### Administrative Fund

This fund accounts for expenditures for administration of the Commission which are included in the State's General Fund.

For financial reporting purposes, the revenues, expenditures and changes in fund balance of the Special Revenue Fund and the Administrative Fund have been combined. For the year ended June 30, 1998, the contribution for administrative expenses and encumbrance obligation aggregated \$16,259,106 of which \$7,570,651 was payable to the State Treasury at June 30, 1998.

### 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, 1998, aggregated \$642,829,785 of which \$58,829,785 was due to the State Treasury at June 30, 1998.

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, 1998, unclaimed prizes aggregating \$16,005,152 were forfeited of which \$4,806,485 is included in other income for the year ended June 30, 1998. During June 1998, the Executive Director authorized additional contributions for aid to education and State institutions totaling \$9,000,000 which is also included in other income for the year ended June 30, 1998. At June 30, 1998, accounts payable and accrued liabilities include \$324,742 related to forfeited prizes.

### Revenue recognition

On June 14, 1998, the Commission began selling tickets for a new \$2 machine game called "LOTZEE." Every "LOTZEE" ticket has 21 sets of four numbers between 00 and 99 divided among five prize levels with a top prize of \$500,000. "LOTZEE" drawings are every Saturday night and the initial drawing was on June 20, 1998.

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

- "Pick 3," "Pick 4," "Pick 6 Lotto," "Jersey Cash 5," and "LOTZEE" on the drawing date.
- Instant Games, daily based upon the settlement of Instant Game inventory packs by selling agents.

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

### Cash Management Fund

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

### Accounts receivable

Accounts receivable is comprised primarily of amounts due from agents net of a \$150,000 allowance for doubtful accounts.

### Equipment and inventory

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

### Installment prize obligations and amount allocated to prize amounts

Installment prize obligations are recorded based upon the present value of an annuity at terms to yield a series of future payments needed to meet the obligations of the Commission for prize disbursements. The Commission purchases annuity contracts from insurance companies to fund its liability for installment prize obligations. Amounts allocated to prize awards reflect the anticipated cost of annuity contracts necessary to satisfy stated prize awards plus any single payment awards. At June 30, 1998, the projected future costs of installment prize obligations, with a carrying value of \$1,254,572,668, amount to \$2,024,518,416 which are due in installments ranging from ten years to the lifetime of the recipient.

### Vacation and sick leave

Accumulated unpaid vacation, sick pay, and other employee benefits are not accrued. In the event of retirement, an employee is reimbursed for accumulated sick leave equal to one-half of the unused days, not exceeding \$15,000. Upon termination, an employee is reimbursed for accumulated vacation pay. Accumulated vacation and accumulated sick leave are estimated to be immaterial by the management of the Commission.

### Total memorandum only columns

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

### Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates that effect the recorded amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

### Financial Statement Presentation

Certain reclassifications have been made to the 1997 balances to be consistent with the 1998 presentation.

## (2) Annuity contracts

The Commission purchases annuity contracts from insurance companies to fund its liability for future installment prize obligations. An annuity contract represents an obligation by an insurance company to provide a fixed series of payments over a specified period. Annuity contracts are carried at their current contract values which are based upon their original purchase price adjusted for credited interest and amounts already received. Annuity contracts are subject to credit risk. The Commission seeks to control its exposure to such credit risk by purchasing annuity contracts only from insurance companies which meet certain minimum standards. Such standards include a minimum required claims payment rating from Standard and Poors Corporation, a private rating agency, of at least "AA." However, due to the long-term nature of these contracts, the credit quality of the issuer is subject to change. At June 30, 1998, the Commission held annuity contracts totaling \$1,254,572,668 issued through twelve insurance companies. A significant portion of the Commission's investment in annuity contracts at such date is concentrated among five companies as follows:

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

Mutual Benefit Life, with whom the Commission has \$12,011,739 outstanding in annuity contracts at June 30, 1998, has been placed in temporary rehabilitation by its respective regulatory authorities. The management of Mutual Benefit Life has stated that they will continue to make all annuity payments in full. Management of the Commission does not believe that the status of Mutual Benefit Life will have a significant impact on the fair value of its annuity contracts or the accompanying statement of revenues, expenditures and contributions and changes in fund balance.

The estimated fair value of annuity contracts approximates the carrying value reflected in the accompanying balance sheet at June 30, 1998. 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:

1999	\$ 702,656
2000	710,181
2001	674,676
2002	666,500
2003	666,500
Thereafter	1,333,000

Rent expense for office facilities in 1998 was \$771,034.

**CHRISTIE WHITMAN**  
Governor

**VIRGINIA E. HAINES**  
Executive Director

**BENEFITS EDUCATION  
AND INSTITUTIONS**

**NEW JERSEY  
LOTTERY**

