State of New Jersey
Department of Treasury
Division of State Lottery

NEW JERSEY
LOTTERY
Benefits Education
and Institutions

Annual Report
Fiscal Year 1993

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ARTHUR ANDERSEN

ARTHUR ANDERSEN & CO. SC

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, 1993 and the related combined statement of revenues, expenditures and contributions and changes in fund balances 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. The financial statements of the New Jersey State Lottery Commission as of June 30, 1992, were audited by other auditors whose report, dated September 14, 1992, expressed an unqualified opinion on those statements. The combined statements of revenues, expenditures and changes in fund balances for the cumulative 246 months ended June 30, 1991 and the 270 months ended June 30, 1993, were not audited by us and, accordingly, we do not express an opinion on them.

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, 1993 and the results of its operations and its changes in fund balances for the year then ended in conformity with generally accepted accounting principles.

Arthur Andersen & Co.

Princeton, New Jersey
September 10, 1993



BALANCE SHEETS

JUNE 30, 1993
WITH COMPARATIVE TOTAL MEMORANDUM FIGURES FOR 1992

	Lottery Special Revenue Fund	Lottery Agency Fund	Lottery Administrative Fund	Total (Memorandum Only) 1993	1992
ASSETS					
Cash	$1,325,575	–	$507,173	$1,832,748	$509,433
Accounts Receivable, Net	18,322,057	–	–	18,322,057	15,862,873
Interfund Receivable – Administration	–	–	2,512,928	2,512,928	4,858,110
Investments:					
Deposit Fund Contracts	–	867,381,726	–	867,381,726	719,431,445
State Of New Jersey Cash Management Fund	55,116,448	–	–	55,116,448	59,569,622
Deferred Expenses and Other Assets	4,057,081	–	–	4,057,081	3,189,659
Total Assets	$78,821,161	$867,381,726	$3,020,101	$949,222,988	$803,421,142
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable and Accrued Liabilities	$6,701,957	–	$2,247,725	$8,949,682	$12,525,409
Obligation for Unpaid Prize Awards	21,793,676	–	–	21,793,676	41,150,867
Due To State Of New Jersey – Education and Institutions	41,868,360	–	–	41,868,360	17,489,069
Interfund Payable – Administration	2,512,928	–	–	2,512,928	4,858,110
Installment Prize Obligations	–	867,381,726	–	867,381,726	720,685,729
Total Liabilities	72,876,921	867,381,726	2,247,725	942,506,372	796,709,184
Fund Balances:					
Reserved For Encumbrances	–	–	772,376	772,376	1,562,396
Reserved For Prize Awards	5,694,240	–	–	5,694,240	4,899,562
Reserved For Bond Insurance	250,000	–	–	250,000	250,000
Total Fund Balances	5,944,240	–	772,376	6,716,616	6,711,958
Total Liabilities And Fund Balances	$78,821,161	$867,381,726	$3,020,101	$949,222,988	$803,421,142

See notes to financial statements

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Comparative Statements

Combined Statements of Revenues, Expenditures and Changes in Fund Balances

	CUMULATIVE 246 MONTHS *ENDED JUNE 30, 1991	12 MONTHS *ENDED JUNE 30, 1992	12 MONTHS ENDED JUNE 30, 1993	CUMULATIVE 270 MONTHS *ENDED JUNE 30, 1993	%
REVENUES:					
GROSS SALES	$12,120,136,197	$1,360,288,096	$1,363,891,790	$14,844,316,083	98.59%
FORFEITED PRIZES	141,816,019	8,076,261	15,610,820	165,503,100	1.10%
INTEREST INCOME	40,638,589	2,183,730	1,481,825	44,304,144	0.29%
MISCELLANEOUS INCOME	2,042,577	542,907	512,427	3,097,911	0.02%
	12,304,633,382	1,371,090,994	1,381,496,862	15,057,221,238	100.00%
EXPENDITURES:					
PRIZE EXPENSE	6,025,920,455	680,006,108	684,595,789	7,390,522,352	49.08%
COMMISSION TO AGENTS & BANKS	664,087,686	73,287,396	73,796,362	811,171,444	5.39%
OPERATING EXPENSES	221,621,172	19,262,154	18,525,297	259,408,623	1.72%
GAME CONTRACTOR FEES	212,316,066	21,168,644	22,087,320	255,572,030	1.70%
COURIER COLLECTION FEE	7,681,151	798,224	763,609	9,242,984	0.06%
START UP COSTS	686,137	–	–	686,137	–
PROVISION FOR DOUBTFUL ACCOUNTS	240,453	40,527	18,916	299,896	–
	7,132,553,120	794,563,053	799,787,293	8,726,903,466	57.95%
OTHER FINANCING USES:					
CONTRIBUTION FOR AID TO EDUCATION AND STATE INSTITUTIONS	5,167,686,764	574,209,481	581,704,911	6,323,601,156	42.00%
TOTAL EXPENDITURES AND OTHER FINANCING USES	12,300,239,884	1,368,772,534	1,381,492,204	15,050,504,622	99.95%
NET CHANGE IN FUND BALANCES	4,393,498	2,318,460	4,658	6,716,616	0.05%
FUND BALANCES, BEGINNING OF PERIOD	–	4,393,498	6,711,958	–	–
FUND BALANCES, END OF PERIOD	$4,393,498	$6,711,958	$6,716,616	$6,716,616	0.05%

See notes to financial statements.

*Figures not covered by report of independent public accountants.

NEW JERSEY STATE LOTTERY COMMISSION
NOTES TO FINANCIAL STATEMENTS

(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 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 themodified accrual basis ofaccounting 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 year ended June 30, 1993, the Commission's contribution for administrative expenses and encumbrance obligation aggregated $19,020,877, of which $2,512,928 was payable to the Treasury at June 30, 1993.

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, 1993 aggregated $581,704,911 of which $41,868,360 was due to the State of New Jersey at June 30, 1993.

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 1993, the Executive Director authorized an additional contribution to aid education and state institutions totaling $12,000,000. This amount is included in other income for the year ended June 30, 1993. For the year ended June 30, 1993, unclaimed prizes aggregating $12,036,067 were forfeited of which $3,610,820 is included in other income. At June 30, 1993, accounts payable and accrued liabilities include $2,807,666 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 lotteryinstant 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 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, 1993, the projected future costs of prize obligations amount to $1,583,752,728 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 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, 1993, the Commission held annuity contracts totaling $867,381,726 issued through thirteen insurance companies. A significant portion of the Commission's investment in annuity contracts at such date is concentrated among five companies.

During July 1991, Mutual Benefit Life, with whom the Commission has $21,247,987 outstanding in annuity contracts as of June 30, 1993, was placed in temporary rehabilitation by the State of New Jersey, Department of Insurance. The management of Mutual Benefit Life has stated that they will continue to make all annuity payments in full. Management of the Commission does not believe that the status of Mutual Benefit Life will have a significant impact on the fair value of its annuity contracts or the financial position or results of operations of the Commission.

(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) New lottery game:

On July 23, 1992, the Commission approved the game rules for a new lottery game, the Jersey Cash 5 game. This is a 5 of 38 lotto game which features all cash prizes. Ticket sales commenced on September 30, 1992 and the initial drawing was held on Wednesday, October 7, 1992.

(5) Commitments and contingencies:

The Commission leases certain office facilities under noncancellable lease agreements expiring through 2010.

Future minimum lease payments are as follows:

1994	$ 718,000
1995	355,000
1996	96,000
1997	96,000
1998	96,000
Thereafter	1,204,000

Rent expense in 1993 and 1992 was $1,003,740 and $978,126, respectively.

"WHERE THE MONEY GOES"

(Schedule Not Covered by Report of Independent Public Accountants)

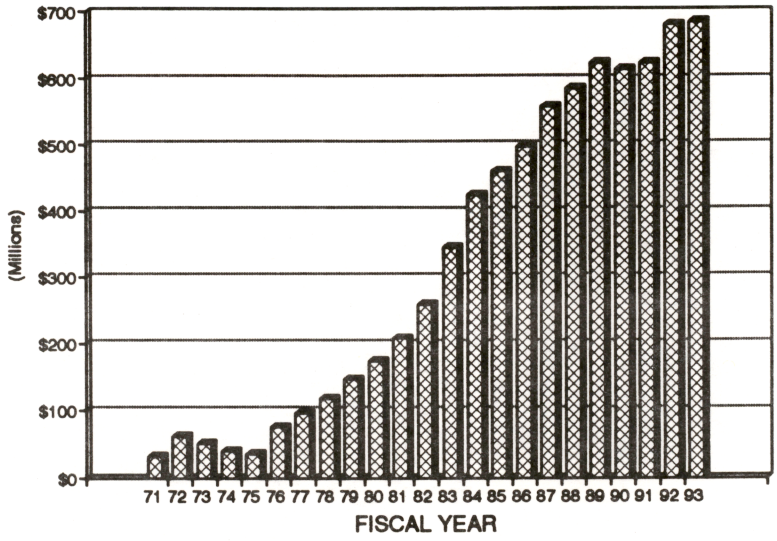
NEW JERSEY LOTTERY
Benefits Education and Institutions

State of New Jersey
Programs Supported by State Lottery Resources
For Fiscal Year 1993

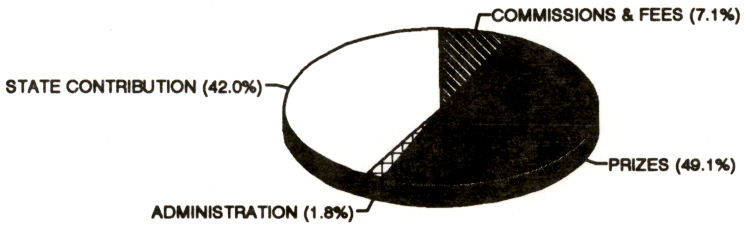
Programs:	Amounts:
DEPARTMENT OF CORRECTIONS	
Institutional Control, Supervision & Rehabilitation:	
Adult Institutions	$73,113,000
Youth And Juvenile Institutions	29,220,000
Institutional Care, Treatment & Rehabilitation:	
Adult Institutions	40,507,000
Youth And Juvenile Institutions	13,759,000
Maintenance Of Physical Plant	16,104,000
DEPARTMENT OF EDUCATION	
Good Starts	5,000,000
Governor's Scholars Program	1,445,000
Marie Katzenbach School For The Deaf	7,770,000
Math / Science Initiative	780,000
New Jersey School For The Arts	172,000
Non–Public School Aid	65,168,000
Partners In Learning	17,000
Projects For Handicapped Infants	14,411,000
School Nutrition	6,488,000
Statewide Testing Program	459,000

Programs:	Amounts:
DEPARTMENT OF HIGHER EDUCATION	
Aid To County Colleges For Operational Costs	101,871,000
Aid To Independent Colleges And Universities	20,020,000
Basic Skills Assessment Program	1,183,000
Edward J. Blaustein Dist. Scholars Program	3,469,000
Garden State Scholarship	1,809,000
Governor's School	974,000
Learning Disabled Program	710,000
Opportunity Program Grants	17,271,000
Optometric Education	88,000
Schools Of Professional Nursing	416,000
Supplementary Education Program Grants	8,819,000
Veterinary Medicine Education	1,425,000
DEPARTMENT OF HUMAN SERVICES	
Operation Of State Psychiatric Hospitals	73,054,000
Operation of Centers For Developmentally Disabled	50,278,000
DEPARTMENT OF MILITARY AND VETERANS AFFAIRS	
Operation Of Homes For Disabled Soldiers	25,905,000
Total	$581,705,000

NEW JERSEY LOTTERY - PRIZES



NEW JERSEY LOTTERY
ALLOCATION OF REVENUES



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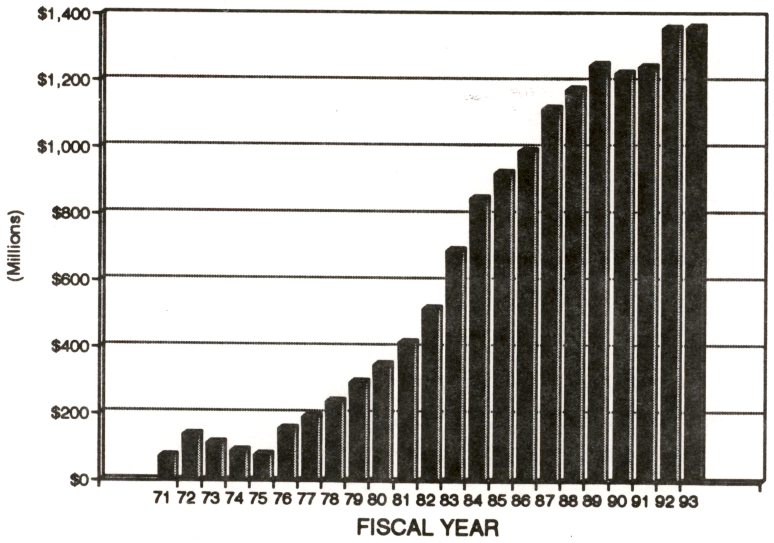
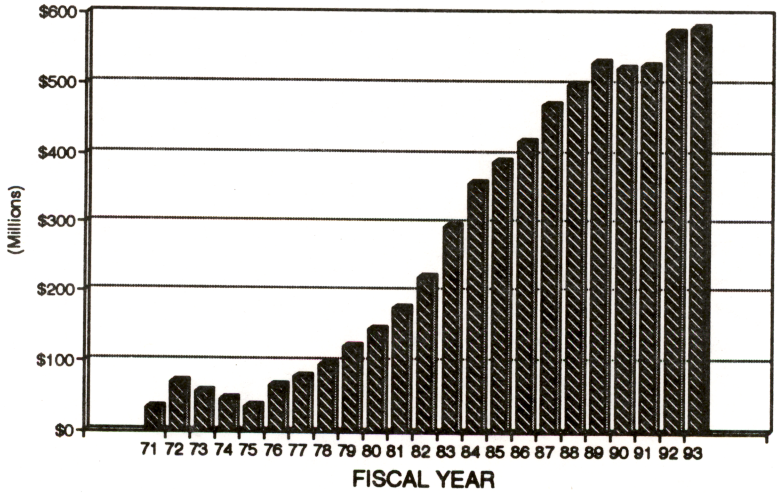
NEW JERSEY LOTTERY SALES



NEW JERSEY LOTTERY
CONTRIBUTION - EDUCATION & INSTITUTIONS



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