

**NEW JERSEY STATE LOTTERY COMMISSION**

Financial Statements  
and Supplementary Information

Years Ended June 30, 2004 and 2003

# NEW JERSEY STATE LOTTERY COMMISSION

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## INDEPENDENT AUDITORS' REPORT

### Commissioners of NEW JERSEY STATE LOTTERY COMMISSON

We have audited the accompanying statement of net assets of the **NEW JERSEY STATE LOTTERY COMMISSION** as of June 30, 2004 and the related statements of revenues, expenses and changes in net assets and cash flows 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, 2003 were audited by other auditors whose report, dated September 19, 2003, expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **NEW JERSEY STATE LOTTERY COMMISSION** at June 30, 2004 and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules included in the supplementary information are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information, except for the portion marked "unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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## INDEPENDENT AUDITORS' REPORT (CONTINUED)

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the presentation of management's discussion and analysis. However, we did not audit the information and express no opinion on it.

*Mucedini, P.C.*

October 22, 2004

## Management's Discussion and Analysis

### **INTRODUCTION:**

The following discussion and analysis provides an analytical overview of the financial position and activities of the New Jersey State Lottery (The Lottery) for the years ended June 30, 2004 and 2003. This statement was prepared by management and should be read in conjunction with the financial statements and notes hereto, which follow this section.

The Lottery was established in 1970 pursuant to the "State Lottery Law," N.J.S.A. 5:9-1, et seq. The Lottery operates within the Department of Treasury of the State of New Jersey. The New Jersey Lottery Commission is a seven member board, appointed by the Governor, authorized and empowered to promulgate rules and regulations in the operation of the Lottery. The "State Lottery Law" also mandates that a minimum of 30% of gross revenues from ticket sales be allocated for Contribution to Education and State Institutions.

The Lottery licenses over 6,000 retailers throughout the State of New Jersey to act as retailers in the sale of New Jersey Lottery tickets. Lottery retailers receive compensation in the form of commissions on each ticket sold or validated. The Lottery also contracts with various ticket vendors in the production, distribution and management of lottery products.

- Gtech Corporation is contracted to provide ticket sales through the on-line terminal network and the warehousing and distribution of instant tickets and promotional materials.
- Creative Games, Pollard Bank Note, Scientific Games and Oberthur Gaming Technologies, are contracted to print and support instant game products.
- Verizon Communications is contracted to provide digital communication between the Lottery's 6,000 sales terminals and the Gtech data center.

The Lottery offers various products for sale with prize awards ranging from \$1.00 to Annuity prizes in excess of \$100 million. The various products sold are:

- Instant Games
- Pick 3 (Including Pick 3 Instant Match)
- Pick 4 (Including Pick 4 Instant Match)
- Lotzee (product discontinued September 13, 2003)
- Jersey Cash 5
- Pick 6 Lotto
- Mega Millions (formerly The Big Game)

## **FINANCIAL HIGHLIGHTS:**

The Lottery's financial position at June 30, 2004 and 2003 consisted of total assets of \$1.174 and \$1.214 billion, respectively, and total liabilities of \$1.153 and \$1.196 billion, respectively. A substantial portion of the asset and liability numbers is due to the Lottery's annuity investment in prize awards. The total amount invested and due to Lottery winners as future installment payments at June 30, 2004 and 2003 was \$972 million and \$1.04 billion, respectively. Net assets increased \$3 million in fiscal year 2004 as a result primarily of an increase in forfeited prizes and decreased \$11 million in fiscal year 2003 due to transfer of unclaimed prize awards to fund state contributions or future prizes.

## **FINANCIAL STATEMENTS:**

The Lottery's financial statements include Statements of Net Assets as of June 30 2004 and 2003, Statements of Revenues, Expenses and Changes in Net Assets for fiscal years ended June 30, 2004 and 2003, and Statements of Cash Flows for fiscal years ended June 30, 2004 and 2003. The financial statements are prepared in accordance with the accounting principles established by the Governmental Accounting Standards Board (GASB).

### **Statements of Net Assets:**

The statements of net assets present the Lottery's financial position as of the last day of the fiscal year. The Lottery's assets, liabilities and net assets are summarized as follows (in millions):

	June 30,	
	2004	2003
Current Assets	\$ 353	\$ 340
Deposit Fund Contracts	821	874
Total Assets	1,174	1,214
Current Liabilities	331	321
Non-Current Liabilities	822	875
Total Liabilities	1,153	1,196
Restricted Net Assets	18	15
Unrestricted Net Assets	3	3
Total Net Assets	\$ 21	\$ 18

Current assets consist of cash and cash equivalents, investment in the State of New Jersey Cash Management Fund, accounts receivable, current year annuity investments and prepaid expenses.

The investment in the State Cash Management Fund totaled \$148 million and \$140 million at June 30, 2004 and 2003, respectively.

The Lottery funds long term installment prizes with insurance company annuities and United States Treasury securities. The total value of these investments was \$972 million and \$1.04 billion as of June 30, 2004 and 2003, respectively. The Lottery has annuity investments with thirteen (13) insurance companies. The total market value of the United States Treasury securities was \$31.2 million and \$25.7 million at June 30, 2004 and 2003, respectively. The annuity prizes due in fiscal years 2006 and beyond totaled \$822 million and represented the non-current assets reported on the Lottery's Statement of Net Assets.

Current liabilities consist of unpaid prize awards, accounts payable and outstanding contribution due to the State of New Jersey General Fund. The total unpaid prizes due and payable totaled \$71 million as of June 30, 2004. There is also \$151 million due to annuity winners in the fiscal year 2005.

Non-Current liabilities represent annuity prize awards due in fiscal years beyond 2005 and the total due for unused vacation and sick leave.

Net assets represent the excess of the Lottery's assets over its liabilities and are summarized as follows (in millions):

	June 30,	
	2004	2003
Restricted (Expired Prize Awards)	\$ 18	\$ 15
Unrestricted	3	3
Total Net Assets	<u>\$ 21</u>	<u>\$ 18</u>

Expired prizes are restricted to fund either future prizes or state contributions.

#### **Statements of Revenues, Expenses and Changes in Net Assets:**

The results of the Lottery's operations are presented in the Statements of Revenues, Expenses and Changes in Net Assets, which is summarized (in millions) as follows for the years ended June 30:

	Year Ended June 30,	
	2004	2003
Ticket Sales	\$ 2,187	\$ 2,074
Forfeited Prizes	43	38
Miscellaneous Income	1	1
Total Operating Revenue	<u>2,231</u>	<u>2,113</u>
Prize Awards	1,240	1,171
Administrative Expenses	21	22
Agent Commissions	121	115
Vendor Fees	43	40
Network Fees	8	13
Drawing Broadcast Fees	1	(a)
Total Operating Expenses	<u>1,434</u>	<u>1,361</u>
Operating Income	797	752
Investment Income	1	2
Income Before Transfers	<u>798</u>	<u>754</u>
Operating Transfers - State Contribution	<u>795</u>	<u>765</u>
Increase (Decrease) in Net Assets	<u>\$ 3</u>	<u>\$ (11)</u>

(a) Included in administrative expenses in fiscal year 2003.

The Lottery awarded over \$1.240 billion in prize awards in fiscal year 2004 and over \$1.171 in fiscal year 2003. Over 91 million winning tickets were validated and paid in fiscal year 2004 while over 88 million winning tickets were validated and paid in fiscal year 2003.

The Lottery's vendors provided critical services to the Lottery, including the production, warehousing, distribution and accounting for all lottery tickets. The total compensation paid for the Lottery's vendors and network fees, was \$50.8 million in fiscal year 2004 and \$52.5 million in fiscal year 2003. Drawing broadcast fees in fiscal year 2004 were \$1,141,555; in prior fiscal years' they were incorporated into administrative expenses.

The Lottery's administrative expenses for the fiscal years 2004 and 2003 totaled \$21.1 million and \$22.3 million, respectively. These administrative expenses include salaries, advertising, auditing services, rent, security, data processing services, office supplies and attorney general fees.

The Lottery is required by State of New Jersey law to contribute at least 30% of total revenue to the State of New Jersey for Education and State Institutions. As a result of various sales initiatives, game enhancements and efficient operations, the Lottery contributed \$795 million, 35.6% of total revenues in fiscal year 2004 and over \$765 million, 36.2% of total revenues in fiscal year 2003.



**Statements of Cash Flows:**

Below is the statements of cash flows which is summarized (in millions) as follows:

	Year Ended June 30,	
	2004	2003
Cash flows from operating activities	\$ 796	\$ 737
Cash flows used in non-capital financing activities	(790)	(697)
Cash flows used in investing activities	(7)	(39)
Net (decrease) increase in cash	<u>\$ (1)</u>	<u>\$ 1</u>

**SUMMARY AND OUTLOOK:**

The Lottery continues its position as a major revenue source for the State of New Jersey. Lottery revenue funds various educational and institutional programs throughout the State.

Lottery management will continue to monitor its product mix to maintain player interest. To this end the following programs and products have proven to be successful in maintaining this interest:

- Free Play Coupons
- Pick 3 and Pick 4 “Instant Match”
- Jersey Cash 5 – game modified to jackpot rollover.
- “Cyber Slingo”, the first in the nation instant game playable on the Internet.

Management will also monitor prize payout percentages and drawing odds in order to achieve an effective mix, which will be both beneficial to players and the State contributions.

# NEW JERSEY STATE LOTTERY COMMISSION

## STATEMENTS OF NET ASSETS

	June 30,	
	2004	2003
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 616,215	\$ 2,009,197
Accounts receivable, net of allowance for doubtful accounts of \$150,000 in 2004 and 2003	39,149,762	20,566,151
Investments:		
Deposit fund contracts	150,691,304	164,801,704
State of New Jersey Cash Management Fund	148,134,843	140,313,400
Other assets	14,203,750	11,861,099
Total current assets	352,795,874	339,551,551
Non-current assets:		
Investments-deposit fund contracts	821,629,480	874,227,407
Total assets	1,174,425,354	1,213,778,958
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable and accrued expenses	20,512,711	19,432,721
Obligation for unpaid prize awards	70,689,336	52,406,969
Installment prize awards	150,691,304	164,801,704
Due to state of New Jersey - education and state institutions	88,971,914	84,401,159
Total current liabilities	330,865,265	321,042,553
Non-current liabilities:		
Compensated absences	828,951	797,047
Installment prize awards	821,629,480	874,227,407
Total non-current liabilities	822,458,431	875,024,454
Total liabilities	1,153,323,696	1,196,067,007
<b>NET ASSETS</b>		
Restricted for prize awards or contributions for aid to education and State institutions	18,330,124	14,940,417
Unrestricted	2,771,534	2,771,534
Total net assets	\$ 21,101,658	\$ 17,711,951

# NEW JERSEY STATE LOTTERY COMMISSION

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Year Ended June 30,	
	2004	2003
Operating revenues:		
Ticket sales		
Pick 3	\$ 452,462,474	\$ 467,606,944
Pick 4	261,852,496	266,086,122
Jersey Cash 5	115,426,263	68,246,486
Pick 6 Lotto	130,774,560	127,165,440
Lotzee	2,951,240	15,937,768
Mega Millions	251,295,751	229,265,846
Instant games	973,632,996	901,191,951
Sales discounts	(1,725,985)	(1,676,209)
Total ticket sales	2,186,669,795	2,073,824,348
Other income:		
Forfeited prizes	42,984,774	38,517,867
Miscellaneous	1,382,932	661,374
Total operating revenues	2,231,037,501	2,113,003,589
Operating expenses:		
Prize expense	1,239,739,587	1,171,456,861
Administrative expenses	21,083,924	22,305,736
Agent commissions	120,998,201	114,820,488
On-line vendor fees	28,657,699	27,172,113
Instant vendor fees	14,103,584	12,745,604
Multi-state fees	24,083	16,831
On-line network fees	8,053,690	12,555,061
Drawing broadcast fees	1,141,555	-
Total operating expenses	1,433,802,323	1,361,072,694
Operating income	797,235,178	751,930,895
Non-operating revenue		
Investment income	1,126,443	2,052,933
Income before contributions for aid to education and State institutions	798,361,621	753,983,828
Contributions for aid to education and State institutions	(794,971,914)	(765,401,159)
Change in net assets	3,389,707	(11,417,331)
Net assets, beginning of year	17,711,951	29,129,282
Net assets, end of year	\$ 21,101,658	\$ 17,711,951

# NEW JERSEY STATE LOTTERY COMMISSION

## STATEMENTS OF CASH FLOWS

	Year Ended June 30,	
	2004	2003
Cash flows from operating activities:		
Cash flows from current operations:		
Sales to customers	\$ 1,134,667,315	\$ 1,079,567,156
Payments for prize awards	(289,215,390)	(295,827,721)
Payments for vendor commissions and fees	(53,828,028)	(52,809,080)
Payments for bond insurance	(597)	(452,921)
Payments to suppliers	(22,097,230)	(26,541,810)
Other payments	(7,139)	(43,604)
Cash flows from annuity operations:		
Annuity receipts	166,328,612	168,452,204
Purchases of annuities	(17,434,881)	(13,276,578)
Payments of annuity prizes	(122,709,485)	(122,046,363)
Net cash provided by operating activities	<u>795,703,177</u>	<u>737,021,282</u>
Cash flows used in non-capital financing activities:		
Contributions for aid to education and State institutions	<u>(790,401,159)</u>	<u>(696,549,833)</u>
Cash flows from investing activities:		
Cash Management Fund Proceeds	1,049,055,000	998,049,000
Cash Management Fund Purchases	<u>(1,055,750,000)</u>	<u>(1,037,025,000)</u>
Net cash used in investing activities	<u>(6,695,000)</u>	<u>(38,976,000)</u>
Net (decrease) increase in cash	(1,392,982)	1,495,449
Cash, beginning of year	2,009,197	513,748
Cash, end of year	<u>\$ 616,215</u>	<u>\$ 2,009,197</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating Income	\$ 797,235,178	\$ 751,930,895
Changes in assets and liabilities:		
Accounts receivable	(18,583,611)	(1,047,148)
Investments-deposit fund contracts	66,708,327	71,584,106
Other assets	(2,342,651)	551,133
Accounts payable and accrued expenses	1,079,990	(7,386,434)
Obligation for unpaid prize awards	(48,425,960)	(78,536,229)
Compensating absences	31,904	(75,042)
Net cash provided by operating activities	<u>\$ 795,703,177</u>	<u>\$ 737,021,282</u>

# NEW JERSEY STATE LOTTERY COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **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 operates within the Department of Treasury of the State of New Jersey. The Commission's financial statements are presented as an enterprise fund and 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 retailers (vendors), and the apportionment of ticket revenues.

#### **Basis of Accounting**

The Commission prepares its financial statements using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that Uses Proprietary Funds*, provides proprietary activities with a choice of authoritative guidance issued after November 30, 1989. The Commission has elected to follow GASB pronouncements exclusively after that date.

#### **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 state aid for 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, 2004 and 2003 aggregated \$794,971,914 and \$765,401,159, respectively, of which \$88,971,914 and \$84,401,159 was due to the State Treasury at June 30, 2004 and 2003, respectively.

For machine games, the Commission has designated that a minimum of 45% of gross revenues be allocated for prize awards, including retailer bonuses. Prize expense is recorded when the winning ticket number is selected for the respective lottery game based on eligible winning tickets sold. For instant games, the percentage of gross revenues to be allocated for prize awards varies by game.

## **NEW JERSEY STATE LOTTERY COMMISSION**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

#### **A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **Forfeited Prizes**

The State Lottery Law requires that prizes not claimed within one year from the date of the drawing are forfeited and are included in other revenues during the period 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 Commission's contribution for aid to education and State institutions. For the year ended June 30, 2004 and 2003 unclaimed prizes were \$42,984,774 and \$38,517,867, respectively and are reported as other revenues.

##### **Revenue Recognition**

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

- "Pick-3, "Pick-4", "Pick-6 Lotto", "Jersey Cash 5", "Lotzee", and "Mega Millions" on the drawing date.
- Instant games, daily based upon the settlement of instant game inventory packs by selling retailers. Sales adjustments are recorded based upon final reconciliations prepared after the termination of a lottery instant game.
- Sales discounts are recorded for the sales value of tickets provided to retailers at no cost to be used for promotional purposes.

##### **Commissions and Fees**

Retailers receive a commission of 5% based on the total tickets sold and a commission of 1.25% of terminal validations. The on-line game contractor receives a fee equal to a contractual percentage of the revenue generated through the respective network maintained by the contractor. All other gaming contractors are paid fees based on the units of service provided.

##### **Cash**

For the purpose of the statements of cash flows, cash includes unrestricted time deposits and highly liquid debt instruments with original maturities of three months or less.

Deposits are with contracted depository banks in interest-bearing accounts which are insured under the Government Unit Deposit Protection Act ("GUDPA") of the State of New Jersey. All such deposits are held in the Commission's name.

## **NEW JERSEY STATE LOTTERY COMMISSION**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

#### **A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

GUDPA permits the deposit of public funds in institutions located in New Jersey which are insured by the Federal Deposit Insurance Corporation ("FDIC"), or by any other agencies of the United States that insure deposits or the State of New Jersey Cash Management Fund.

GUDPA requires public depositories to maintain collateral for deposits of public funds that exceed insurance limits as follows:

The market value of the collateral must equal 5% of the average daily balance of public funds; or if the public funds deposited exceed 75% of the capital funds of the depository, the depository must provide collateral having a market value equal to 100% of the amount exceeding 75%.

All collateral must be deposited with the Federal Reserve Bank, the Federal Home Loan Bank Board, or a banking institution that is a member of the Federal Reserve System and has capital funds of not less than \$25,000,000.

Uninsured and uncollateralized deposits are covered under the unit certificate of eligibility as required by GUDPA.

#### **State of New Jersey Cash Management Fund**

Investments in the State of New Jersey Cash Management Fund are valued at cost, which approximates fair value. The State of 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 retailers. The reserve for uncollectible accounts is funded by a \$100 per year bonding fee paid by the Commission's retailers. The reserve also comprises an allowance for uncollectible accounts of \$150,000 and designated net assets reserve of \$250,000.

The significant increase in accounts receivable at June 30, 2004 represents timing differences between the end of the reporting period and electronic transfer of retailer bank funds to the Commission's account.

## **NEW JERSEY STATE LOTTERY COMMISSION**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

#### **A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **Equipment and Inventory**

The Commission follows the State's threshold for capitalizing equipment and inventory as follows; machinery and equipment \$20,000; and motor vehicles \$30,000. Purchases that do not meet the threshold for capitalization are recognized as expenses in the statements of revenues, expenses, and changes in net assets in the period in which they are acquired and are included in administrative expenses. During 2004 and 2003, there were no capitalized equipment or inventory purchases.

##### **Installment Prize Awards and Prize Expenses**

Installment prize awards are recorded based upon the present value of an annuity at terms to yield a series of future payments needed to meet the obligations of the Commission for prize disbursements. The Commission purchases annuity contracts from insurance companies and U.S. Government securities to fund its liability for installment prize awards. Amounts recorded as prize expense reflect the cost of annuity contracts and U.S. Government securities necessary to satisfy stated prize awards plus any single payment awards.

##### **Vacation and Sick Leave**

The Commission records vacation and sick time incurred during the period in administrative expenses in the accompanying statements of revenues, expenses, and changes in net assets.

Payments for accumulated sick leave balances are made to retiring employees upon regular retirement. The payment is based on 50% of the employee's sick leave accumulation, at the pay rate in effect at the time of retirement up to a maximum of \$15,000. Employees separating from service prior to retirement are not entitled to payments for accumulated sick leave.

##### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.



## NEW JERSEY STATE LOTTERY COMMISSION

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

#### B. FUTURE INSTALLMENT PRIZE AWARDS

The Commission purchases annuity contracts from insurance companies and U.S. Government securities to fund its liability for future installment prize awards. Generally, annuity contracts fund instant product annuity prizes and U.S. Government securities fund annuity prizes for Pick 6 and Mega Millions. An annuity contract represents an obligation by an insurance company to provide a fixed series of payments over a specified period.

U.S. Government securities are carried at fair value. At June 30, 2004 and 2003, the Commission held U.S. securities totaling \$31,238,581 and \$25,717,192, respectively.

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, 2004 and 2003, the Commission held insurance company annuity contracts totaling \$972,320,784 and \$1,039,029,111, respectively, issued through thirteen insurance companies, which are due in installments ranging from ten years to the lifetime of the recipient. A significant portion of the Commission's investment in annuity contracts at such date is concentrated among eight companies as follows:

- |                              |   |
|------------------------------|---|
| • Ohio National Life         | • Metropolitan Life                                       |
| • New York Life Insurance Co | • Keyport Life / Sun Life                                 |
| • Mutual of America          | • Alexander Hamilton Life Insurance Co. (Jefferson Pilot) |
| • Protective Life            | • Great West Life   |

The estimated fair value of annuity contracts approximates the carrying value reflected in the accompanying statements of net assets at June 30, 2004 and 2003.

## NEW JERSEY STATE LOTTERY COMMISSION

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

#### C. LITIGATION

The Commission is a party to a number of legal actions 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 results of operations of the Commission.

#### D. COMMITMENTS

##### Contractual Arrangements

The Commission maintains a gaming network of over 6,000 on-line locations where all games are sold. GTECH Corporation is responsible for operating the on-line games and providing courier services under a contract expiring June 20, 2006.

##### Operating Leases

The Commission leases certain office facilities under non-cancelable operating lease agreements expiring through fiscal year 2013.

Future minimum lease payments are as follows:

Year Ending, June 30	Amount	Year Ending, June 30	Amount
2005	\$ 697,438	2010	\$ 638,550
2006	697,438	2011	638,550
2007	697,438	2012	638,550
2008	638,550	2013	638,550
2009	638,550		

Rent expense for office facilities in 2004 and 2003 was \$762,564 and \$874,337, respectively.

## **SUPPLEMENTARY INFORMATION**

# NEW JERSEY STATE LOTTERY COMMISSION

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS – BUDGET AND ACTUAL

Year Ended June 30, 2004

	Budget (unaudited)	Actual	Variance favorable (unfavorable)
Revenue:			
Ticket Sales			
Pick 3	\$ 472,125,000	\$ 452,462,474	\$ (19,662,526)
Pick 4	261,547,500	261,852,496	304,996
Jersey Cash 5	91,360,000	115,426,263	24,066,263
Pick 6 Lotto	167,648,000	130,774,560	(36,873,440)
Lotzee	3,640,000	2,951,240	(688,760)
Mega Millions	230,152,000	251,295,751	21,143,751
Instant games	949,000,000	973,632,996	24,632,996
Sales discounts	-	(1,725,985)	(1,725,985)
Total ticket sales	<u>2,175,472,500</u>	<u>2,186,669,795</u>	<u>11,197,295</u>
Other income:			
Forfeited prizes	29,289,000	42,984,774	13,695,774
Miscellaneous	1,000,000	1,382,932	382,932
Total operating revenue	<u>2,205,761,500</u>	<u>2,231,037,501</u>	<u>25,276,001</u>
Expenditures:			
Prize expense	1,231,644,800	1,239,739,587	(8,094,787)
Administrative expenditures	21,491,000	21,083,924	407,076
Agent commissions	119,620,835	120,998,201	(1,377,366)
On-line vendor fees	28,248,965	28,657,699	(408,734)
Instant vendor fees	13,380,900	14,103,584	(722,684)
Multi state fees	35,000	24,083	10,917
On-line network fees	9,000,000	8,053,690	946,310
Drawing broadcast fees	1,140,000	1,141,555	(1,555)
Total expenditures	<u>1,424,561,500</u>	<u>1,433,802,323</u>	<u>(9,240,823)</u>
Operating income	781,200,000	797,235,178	16,035,178
Non-operating revenue			
Investment income	<u>1,800,000</u>	<u>1,126,443</u>	<u>(673,557)</u>
Income before contributions	783,000,000	798,361,622	15,361,622
Contributions for aid to education and State institutions	<u>793,000,000</u>	<u>794,971,914</u>	<u>(1,971,914)</u>
Change in net assets	(10,000,000)	3,389,707	13,389,707
Net assets, beginning of year	<u>17,711,951</u>	<u>17,711,951</u>	<u>-</u>
Net assets, end of year	<u>\$ 7,711,951</u>	<u>\$ 21,101,658</u>	<u>\$ 13,389,707</u>

# NEW JERSEY STATE LOTTERY COMMISSION

## SCHEDULES OF INSTANT GAME REVENUES

	Year Ended June 30,	
	2004	2003
CROSSWORD (Q)	\$ 43,452,460	\$ -
CROSSWORD (S)	43,227,048	-
CROSSWORD (R)	42,033,111	-
CROSSWORD (T)	38,554,962	-
BIG MONEY SPECTACULAR (C)	22,742,882	-
BIG MONEY SPECTACULAR	22,368,784	-
VINTAGE BINGO	21,873,978	-
CROSSWORD (P)	21,497,173	18,664,596
BIG CASH CASINO	20,992,890	-
MONEY MAKER DBL PLAY	20,014,715	-
LIVIN' LUCKY	19,704,900	-
DIAMOND DOLLAR BINGO	16,815,263	-
ALL THE MARBLES	16,120,040	-
WIN FOR LIFE (Z)	15,940,278	-
WILD 7'S SLINGO	15,555,375	-
SUPER DIAMOND	15,468,070	-
WIN FOR LIFE (Y)	15,388,146	736,500
BIG CASH DOUBLEPLAY	14,612,530	-
SLINGO	13,584,522	15,759,690
PHARAOHS GOLD	13,424,156	-
MORE LUCKY LINES	12,997,419	3,042,777
POKER ROYALE	12,920,960	7,239,735
MONOPOLY	12,777,868	-
JACKS OR BETTER (D)	12,460,040	-
HOLIDAY LUCKY TIMES	12,384,520	-
DOUBLE DOUBLER	12,345,994	-
\$25,000 HEARTS	12,305,556	-
AMAZIN 8	12,280,078	-
TRIPLE TRIPLER (C.)	12,043,379	71,100
RED HOT DOUBLER (D)	11,953,705	-
BIG MONEY SPECTACULAR (F)	11,807,520	-
WIN FOR LIFE (A1)	11,613,123	-
BARRELS OF BUCKS	10,788,130	1,619,100
HOLIDAY MAGIC	10,378,044	-
LUCKY 4 LEAF CASH	10,120,156	-

**NEW JERSEY STATE LOTTERY COMMISSION**

**SCHEDULES OF INSTANT GAME REVENUES (CONTINUED)**

	Year Ended June 30,	
	2004	2003
ROLL 6 POKER	\$ 9,879,690	\$ -
CAESARS PALACE	9,722,440	-
CASH CROP	9,689,450	-
FAST CASH CORVETTE	9,627,554	-
MAGIC NUMBERS	9,619,212	2,902,200
HOLLY JOLLY JACKPOT	9,591,800	-
FALL FEST	9,510,477	-
SPRING BREEZE	8,806,368	-
BURST CASH	8,688,466	-
ARCTIC CASH	8,316,296	-
CLASSIC BINGO	8,117,710	12,591,384
VINTAGE BINGO	7,931,140	-
THE HONEYMOONERS	7,807,636	-
CARIBBEAN CASH	7,704,608	-
BIRTHDAY SURPRISE	7,653,502	-
PLATINUM BINGO	7,609,563	-
PROGRESSIVE POKER	7,450,070	-
INSTANT PICK 4	7,365,594	633,900
AMAZING ADVENTURE	7,337,685	54,300
TRIPLE TRIPLER	6,909,488	-
WHEEL OF FORTUNE	6,868,485	8,217,777
MAGIC CHARM BINGO	6,643,665	7,622,100
10 TIMES LUCKY	6,400,854	-
PROGRESSIVE BLACKJACK	6,394,280	10,931,130
NHL	6,184,332	-
MATRI-MONEY	5,872,244	-
BUSHEL OF CLAMS	5,840,652	46,800
JOKER'S WILD	5,724,474	-
TAIL GATOR	5,683,311	-
10 TIMES LUCKY	5,575,528	7,527,858
HUNT FOR CASH	5,504,910	9,085,362
POKER NIGHT	5,398,735	-
CYBER SLINGO	5,250,628	-
WINNER WEATHER	5,250,608	-
WINNING LEGENDS	5,247,728	-

# NEW JERSEY STATE LOTTERY COMMISSION

## SCHEDULES OF INSTANT GAME REVENUES (CONTINUED)

	Year Ended June 30,	
	2004	2003
COUNT DE MONEY	\$ 5,219,860	\$ -
MOTHERS DAY DOUBLER	4,680,339	-
SUPER SIZE CASH	4,365,040	-
CYBER SLINGO 5 PACK	3,944,936	-
I LOVE LUCY	3,935,384	6,474,434
YANKEE DOODLE DOLLARS	3,924,420	1,195,800
XTREME SIGHTS & SOUNDS	3,815,282	-
FLOWER POWER	3,579,282	7,726,450
BONUS BASEBALL	3,529,487	3,829,752
DOUBLE UP SLINGO	3,344,292	-
BIG MONEY SPECTAC	2,837,792	19,480,086
JACKS OR BETTER	2,702,745	16,920,330
NJ ROAD TRIP	2,685,600	-
HAPPY FATHER'S DAY	2,685,245	1,962,357
RED HOT DOUBLER (C)	2,680,523	10,345,980
FATHER'S DAY DOUBLER	2,612,754	-
LUCKY 8'S BINGO	2,498,784	12,102,141
HARLEY DAVIDSON	2,477,114	7,833,238
SWEET WINNINGS	2,199,904	7,539,204
WIN FOR LIFE (X)	1,966,148	15,241,455
COLD HARD CASH	1,817,482	10,532,848
BIG BANG BUCKS	1,699,200	-
SIZZLING HOT CASH	1,294,500	-
JINGLE BELL BINGO	1,158,105	9,082,616
CASH BONUS	1,114,455	18,600,030
CROSSWORD (U)	1,067,400	-
WILD ARUBA STUD	1,006,156	10,100,470
TRIPLE TRIPLER (B)	942,974	11,364,242
HAPPY MOTHER'S DAY	941,002	4,687,397
HARVEST GOLD	899,020	8,777,692
BEETLE BAILEY	836,026	6,574,421
STRUCK BY LUCK	824,128	11,626,118
INSTANT PICK 3	590,637	7,626,386
LUCKY CLOVER	424,513	5,387,785
FUN IN THE SUN	409,054	6,452,488
NBA	398,034	6,723,876

# NEW JERSEY STATE LOTTERY COMMISSION

## SCHEDULES OF INSTANT GAME REVENUES (CONTINUED)

	Year Ended June 30,	
	2004	2003
CROSSWORD (O)	\$ 387,141	\$ 40,566,918
LIONEL CASH EXPRESS	297,840	6,766,318
PINBALL WIZARD	288,300	-
PINBALL PAYOFF	285,600	16,390,730
DOLLAR SIGNS	270,788	11,224,622
HIGH TIDES	220,626	6,415,446
HAPPY HOLIDAYS	157,047	9,274,158
BIRTHDAY CHEER	135,768	4,819,262
GOLDEN RICHES	118,800	-
FROSTY FUN DOUBLER	109,177	5,681,729
QUEEN FOR A DAY	86,380	3,016,736
HOLIDAY CHEER	74,210	12,148,100
MARRY MONEY	61,500	2,888,694
LUCKY LINES	55,824	15,721,245
SPOOKY LOOT	55,247	5,764,906
MONEY BAGS	34,948	12,681,306
DOUBLE DOUBLER	32,040	12,027,756
4TH & GOAL	25,975	7,443,525
CLASSIC BINGO (B)	18,932	21,351,144
INSTANT LOTZEE	17,066	2,473,810
TABASCO HOT CASH	15,590	9,669,848
CROSSWORD (N)	13,935	42,774,274
STAR SPANGLE DOLL	12,346	7,820,534
WIN FOR LIFE (W)	10,395	17,128,518
LOTS O SPOTS BINGO	7,536	10,871,754
SUPER BLACKJACK DBL	7,480	19,669,305
RED HOT DOUBLER (B)	6,600	12,353,418
CASH IN A FLASH	4,500	12,427,564
SUNKEN TREASURE	3,900	15,182,418
STUD POKER	3,600	16,163,355
CROSSWORD M	3,540	41,917,515
CLUB CASINO	3,000	14,882,905
WINNING COMBINATION	2,874	11,171,216
BIG MONEY SPECTACULAR	2,400	21,597,214
LUCKY TIMES 10	2,014	11,220,364
SUPER 7'S (F)	1,908	12,436,574



# NEW JERSEY STATE LOTTERY COMMISSION

## SCHEDULES OF INSTANT GAME REVENUES (CONTINUED)

	Year Ended June 30,	
	2004	2003
CRAB DOUBLER	\$ 1,661	\$ 7,147,317
CROSSWORD(L)	600	19,343,934
MAUI MONEY	300	157,710
CYBER SLINGO	75	-
30TH ANNIVERSARY	-	(300)
CELEBRATE 30 YEARS	-	(300)
BRIDAL BUCKS	-	(900)
RED WHITE BLUE SLOTS	-	(275)
SNAKE EYES	-	(59)
COLOR OF MONEY	-	(610)
CELEBRATE 30 YEARS (B)	-	(1,200)
WILD CHERRY SLOTS	-	(600)
DOUBLE DIAMOND SLOTS	-	(673)
HOLIDAY GIFT PACK (A)	-	(600)
FAT CAT DOUBLER	-	(300)
ALL NEW BINGO C	-	300
INSTANT BATTLESHIP	-	(549)
COOL WINNINGS	-	(300)
PHAROH'S FORTUNE	-	(300)
BLUE CHIP STOCK	-	(300)
ELVIS	-	(30)
GOLDEN LIPS	-	(300)
MARDI GRAS	-	(600)
WIN FOR LIFE (S)	-	(693)
LEPRECHAUN LUCK	-	(600)
DEEP SEA DOUBLER	-	(9)
LUCKY NUMBER BINGO	-	(2,685)
3'S FOR THE MONEY	-	(300)
PINBALL WIZARD	-	(900)
GREEN GARDEN	-	(600)
ALL NEW BINGO	-	(300)
INSTANT MILLION	-	(1,200)
GOLF & CASH	-	(300)
SPAM	-	(180)
CROSSWORD (H)	-	(342)
SAND TREASURES	-	156,878

# NEW JERSEY STATE LOTTERY COMMISSION

## SCHEDULES OF INSTANT GAME REVENUES (CONTINUED)

	Year Ended June 30,	
	2004	2003
HAPPY FATHER'S DAY	\$ -	\$ (2,557)
SUPER BLACKJACK	-	(2,525)
SUNNY MONEY	-	(702)
GONE FISHING	-	(1,705)
CASH BLAST	-	(587)
BASEBALL BUCKS (B)	-	263
WILD CASH	-	(906)
LET'S MAKE A DEAL	-	345,538
WIN FOR LIFE (T)	-	102
RACEWAY RICHES	-	(2,798)
JACKS OR BETTER	-	23,685
ALL NEW BINGO (E)	-	(300)
CROSSWORD (I)	-	(600)
CASH SAFARI	-	(1,080)
TOUCHDOWN	-	(1,709)
HALLOWEEN CASH	-	(1,232)
EVERY DREAM A JACKPOT	-	326,820
LUCKY SLOTS	-	(13)
BIG MONEY SPECTACULAR	-	1,229,092
LIFE STYLES RICH FAMOUS	-	(1,050)
HOLIDAY WISHES	-	(6,783)
COOL CASH DOUBLER	-	45,899
SUPER 7'S	-	16,118
CASH TRIPLER	-	34,794
CROSSWORD (J)	-	11,397
JACKS OR BETTER	-	222,675
CROSSWORD (K)	-	116,997
HAPPY BIRTHDAY	(240)	296,924
RAKE IT IN	(300)	605,991
HOLLYWOOD SQUARES	(300)	176,678
DOUBLE BINGO	(300)	509,607
SUPER BUCKS	(300)	101,932
WIN FOR LIFE (U)	(300)	307,194
CLASSIC BINGO	(300)	1,663,448
RED HOT DOUBLER	(300)	48,496
2001:A CASH ODYSSEY	(600)	56,028

# NEW JERSEY STATE LOTTERY COMMISSION

## SCHEDULES OF INSTANT GAME REVENUES (CONTINUED)

	Year Ended June 30,	
	2004	2003
SALES BEACH BLANKET BINGO	\$ (600)	\$ 527,814
SHORE THING	(600)	464,088
WINTER GREEN	(600)	1,020,450
GARDEN STATE GREEN	(600)	120,160
ME & MY MONEY	(600)	180,377
VIVA LAS VEGAS	(900)	5,869,655
10 TIMES LUCKY	(900)	341,634
GRAND SLAM	(900)	1,526,634
2002 & BEYOND	(960)	840,606
SOLITAIRE	(1,185)	9,234,333
HOLIDAY MAGIC	(1,200)	1,121,130
WIN FOR LIFE (V)	(1,200)	12,322,116
VALENTINE KISSES	(1,296)	1,551,446
CASINO FORTUNE	(1,500)	1,242,055
MASQUERADE PARTY	(1,800)	6,002,235
DAD'S DAY DOUBLER	(1,850)	2,961,236
SPRING FEVER	(1,910)	2,738,066
YOU STRUCK GOLD	(1,920)	8,313,820
CMT COUNTRY MUSIC	(2,234)	890,020
HEROES OF SPACE	(3,206)	2,184,526
SALES ADJUSTMENT	(10,141)	(42,501)
TOTAL REVENUES	<u>\$ 973,632,996</u>	<u>\$ 901,191,951</u>

# NEW JERSEY STATE LOTTERY COMMISSION

## SCHEDULES OF ADMINISTRATIVE EXPENSES

	Year Ended June 30,	
	2004	2003
Salaries	\$ 7,282,454	\$ 7,092,227
Printing and office supplies	345,394	380,012
Vehicular equipment	701	440
Household and clothing	3,546	4,763
Other supplies	1,625	180
Travel	177,542	153,976
Telephone	96,724	87,763
Postage	90,000	96,000
Data Processing	10,810	22,562
Household and security	229,387	186,198
Professional services	495,502	472,647
Other professional services	11,121,491	12,512,676
Data processing-OIT	243,693	292,000
Maintenance-building and grounds	4,740	12,277
Maintenance-office equipment	22,589	25,445
Maintenance-vehicles	4,145	78
Rent-building and grounds	762,564	874,337
Central motor pool	60,206	70,380
Rent-other	4,021	4,122
Vehicular equipment	85,775	-
Other equipment	35,162	11,216
Information processing equipment	5,854	6,436
Total administrative expenses	<u>\$ 21,083,924</u>	<u>\$ 22,305,736</u>