

**STATE OF NEW JERSEY,
DIVISION OF STATE LOTTERY**

Financial Statements
and Supplementary Information

June 30, 2018

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

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STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

INTRODUCTION

The following discussion and analysis provides an analytical overview of the financial position and activities of the State of New Jersey, Department of the Treasury, Division of State Lottery (the "Division of State Lottery") for the years ended June 30, 2018 and 2017. This statement was prepared by management and should be read in conjunction with the financial statements and notes hereto, which follow this section.

The Division of State Lottery was established in 1970 pursuant to the "State Lottery Law," N.J.S.A. 5:9-1 et seq. The Division of State Lottery operates within the Department of the 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 contributions to state aid for education and state institutions N.J.S.A. 5:9-7a (11).

As of June 30, 2018, the Division of State Lottery licensed more than 7,200 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, bonuses and various retailer incentive programs.

On June 20, 2013, a competitively bid 15-year (plus fiscal year 2014 stub year) contract was awarded to Northstar New Jersey, LLC (Northstar NJ) to provide sales and marketing services to the Division of State Lottery for the purpose of increasing lottery sales and net income (net proceeds for state aid for education and state institutions). If contracted net income targets for a given fiscal year are met or exceeded, Northstar NJ will earn incentive compensation. Conversely, if net income targets for a given fiscal year are not met it could result in reduced incentive or a contribution shortfall payment to the Division of State Lottery. In addition to compensation for its sales and marketing efforts, Northstar NJ is reimbursed for certain direct costs it incurs on behalf of the Division of State Lottery.

For the purposes of the incentive compensation calculation, the Division of State Lottery's net income is predicated on income targets contained in the amended Northstar NJ contract (see Schedule of Northstar NJ Net Income Targets). The Division of State Lottery's actual net income for a fiscal year is decreased when Northstar NJ earns an incentive payment and is increased if Northstar NJ is obligated to pay a shortfall payment.

Northstar NJ's first operational year was a stub year; October 1, 2013 through June 30, 2014. The remaining fifteen years (fiscal years 2015 – 2029) of the contract coincide with the Lottery's fiscal year, starting on July 1 and ending on June 30 through the year ending June 30, 2029. The year ended June 30, 2018, was the fourth full operational year of the contract.

Under the terms of the agreement, Northstar NJ is responsible for subcontracting on behalf of the Lottery for services that the Division of State Lottery previously contracted. Such services include the online terminal network for ticket sales, the warehousing and distribution of instant tickets, printing contracts for instant tickets, and marketing and advertising services.

**STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

INTRODUCTION (CONTINUED)

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

- Instant Games (Scratch-Offs)
- FastPlay
- 5 Card Cash All In (launched in May 2016)
- Pick 3 Fireball (Including Pick 3 Instant Match)
- Pick 4 Fireball (Including Pick 4 Instant Match)
- Jersey Cash 5 Xtra (Including Jersey Cash 5 Instant Match)
- Pick 6 Xtra
- Mega Millions
- Powerball
- CASH4LIFE Doubler
- Quick Draw (launched in July 2017)

FINANCIAL HIGHLIGHTS

The Division of State Lottery's financial position at June 30, 2018 and 2017, consisted of total assets of \$501 million and \$516 million, respectively, and total liabilities of \$500 million and \$514 million, respectively. A substantial portion of the asset and liability amounts for the year ending June 30, 2018, is due to the Division of State Lottery's annuity investment in prize awards. The total amounts invested and due to Division of State Lottery winners as future installment payments at June 30, 2018 and 2017, were \$234 million and \$254 million, respectively. Net position decreased from \$1.6 million in fiscal year 2017 to \$1.5 million for fiscal year 2018.

FINANCIAL STATEMENTS

The Division of State Lottery's financial statements include statements of net position as of June 30, 2018 and 2017, statements of revenues, expenses and changes in net position for years ended June 30, 2018 and 2017, and statements of cash flows for years ended June 30, 2018 and 2017. The financial statements are prepared in accordance with the accounting principles established by the Governmental Accounting Standards Board.

Statements of Net Position

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

**STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)**

FINANCIAL STATEMENTS (CONTINUED)

Statements of Net Position (Continued)

	June 30,		
	2018	2017	2016
Current Assets	\$ 291	\$ 287	\$ 326
Deposit Fund Contracts	210	228	227
Total Assets	<u>501</u>	<u>515</u>	<u>553</u>
Current Liabilities	291	285	314
Non-Current Liabilities	208	228	228
Total Liabilities	499	513	542
Restricted Net Position	1.0	0.8	3.9
Unrestricted Net Position	0.5	0.8	7.5
Total Net Position	<u>\$ 1.5</u>	<u>\$ 1.6</u>	<u>\$ 11.4</u>

Current assets consist of cash and investment in the State of New Jersey Cash Management Fund (the NJCMF), accounts receivable, current year annuity investments and deferred expenses. The investment in the NJCMF totaled \$250 million and \$244 million at June 30, 2018 and 2017, respectively.

The Division of State Lottery funds long-term installment prizes with insurance company annuities and United States Treasury securities. The total value of these investments was \$234 million and \$254 million as of June 30, 2018 and 2017, respectively. The Division of State Lottery has annuity investments with eleven (11) insurance companies. The total market value of the United States Treasury securities was \$40 million at June 30, 2018 and 2017, respectively. The annuities due beyond fiscal years 2018 and 2017 total \$208 million and \$228 million, respectively. These represent the non-current assets reported on the Division of State Lottery's statements of net position. Although categorized as an asset, annuities represent an obligation that the Division of State Lottery has to pay the annuitants to fund the monies due to them over a fixed period of time based on the amount of the annuitized jackpot at the time of the "win." The duration of an annuity varies from twenty years to life. Because of the true nature of these annuities, the Division of State Lottery has a fiduciary responsibility to continue to administer these instruments in a responsible and prudent manner. The current amounts due to annuity winners totaled \$25 million and \$26 million as of June 30, 2018 and 2017, respectively.

Non-current liabilities represent annuity prize awards due beyond 2018 and also include the total due for unused vacation and sick leave (compensated absences).

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

	June 30,		
	2018	2017	2016
Restricted (Unclaimed Prize Reserves)	\$ 1.0	\$ 0.8	\$ 3.9
Unrestricted	0.5	0.8	7.5
Total Net Position	<u>\$ 1.5</u>	<u>\$ 1.6</u>	<u>\$ 11.4</u>

Expired prizes, or unclaimed prize reserves, are restricted to fund either future prizes or state contributions.

**STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)**

FINANCIAL STATEMENTS (CONTINUED)

Statements of Revenues, Expenses and Changes in Net Position

The results of the Division of State Lottery's operations are presented in the statements of revenues, expenses and changes in net position, which are summarized (in millions) as follows:

	Years Ended June 30,		
	2018	2017	2016
Operating revenues			
Ticket sales	\$ 3,300	\$ 3,187	\$ 3,290
Forfeited prizes	52	45	34
Miscellaneous income	1	1	2
Total operating revenue	<u>3,353</u>	<u>3,233</u>	<u>3,326</u>
Operating expenses			
Prize expenses	1,991	1,927	2,002
Retailer commissions	188	182	186
Northstar NJ fees & expenses	47	43	44
Vendor fees	59	60	60
Administrative expense	9	9	10
Bad debt expense	0	1	0
Total operating expenses	<u>2,294</u>	<u>2,222</u>	<u>2,302</u>
Operating income	1,059	1,011	1,024
Non-Operating (expenses) revenue	<u>(29)</u>	<u>(27)</u>	<u>(28)</u>
Income before transfers out	1,030	984	997
Operating transfers – State contributions	<u>1,030</u>	<u>994</u>	<u>987</u>
(Decrease) increase in net position	<u>\$ 0</u>	<u>\$ (10)</u>	<u>\$ 10</u>

The Division of State Lottery awarded approximately \$1.991 billion in prize awards in fiscal year 2018 and approximately \$1.927 billion in fiscal year 2017.

Northstar NJ is the primary vendor for the Division of State Lottery. As such, Northstar NJ is responsible for providing critical services to the Division of State Lottery, including the production, warehousing, distribution and accounting for all lottery tickets. The total compensation paid to Northstar NJ for services (exclusive of incentive compensation) was \$105 million in fiscal year 2018. This amount paid to Northstar NJ for the services it provided or procured on behalf of the Division of State Lottery, included \$26 million for advertising and marketing costs, \$35 million for gaming system vendor fees, and \$24 million for instant ticket vendor printing fees. In fiscal year 2017, the total compensation paid to Northstar NJ for these same goods and services was \$102 million. Of this amount, \$25 million was for advertising and marketing costs; \$34 million for gaming system vendor fees; and \$25 million for instant ticket vendor printing fees.

**STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)**

FINANCIAL STATEMENTS (CONTINUED)

Statements of Revenues, Expenses and Changes in Net Position (Continued)

The Division of State Lottery's administrative expenses for the fiscal years 2018 and 2017 were \$9 million, respectively, for each year. These administrative expenses include salaries, auditing services, rent, security, data processing services, office supplies and attorney general fees. The management services contract has shifted advertising and other expenses from the Division of State Lottery to Northstar NJ.

The Division of State Lottery is required by the State of New Jersey Lottery law to contribute a minimum of 30% of net revenues from ticket sales to the State of New Jersey, for state aid for education and state institutions. As a result of various sales initiatives, game enhancements and efficient operations, the Division of State Lottery contributed \$1,030 million, 31% of net revenues, in fiscal year 2018 and \$994 million, 31% of net revenues, in fiscal year 2017.

During the term of the contract, Northstar NJ's incentive compensation is reduced in the event the annual contractual net income target is not met or if the 30% minimum contribution threshold is not achieved. Conversely, incentive compensation is increased in the event that the net income target is exceeded. Furthermore, in the event that actual net income is significantly below the contracted net income target, then the contribution shortfall payment provisions are invoked. Northstar's net income target for the fiscal year ended June 30, 2018, was \$1,009,871,643.

The income before transfers operating income for fiscal year 2018 totaled \$1,062 million. In accordance with the Northstar contract, a separate calculation is performed to determine the income for the purposes of establishing the incentive/shortfall payment. Northstar NJ's incentive/shortfall payment based on income before transfers of \$1,062 million resulted in an incentive payment of \$31,859,505.

The contract does establish bottom and top caps on Northstar NJ's compensation. In the event that Highest Income Levels are surpassed total compensation to Northstar NJ cannot exceed 3% of operating income for the entire contract year. Conversely, in the event Base Income Levels are not achieved, the contribution shortfall payment cannot exceed 2% of net income. In fiscal year 2018, the top cap had to be utilized in the incentive payment calculation, reducing the incentive payment by \$2,635,396. The calculation is outlined in the table below.

INCENTIVE PAYMENTS BANDS	FY 2018
Above Base Level, Below Middle Level	5.0%
Above Middle Level, Below Upper Level	20.0%
Operating Income Levels	
Base Level Income	\$ 828,996,000
Middle Level Income	909,680,000
Lottery Management Agreement NET INCOME	1,061,983,504
Incentive Payments	
Above Base, Below Middle	4,034,200
Above Middle, Below Upper	30,460,701
Sub Total Incentive Payments	\$34,494,901
High Cap (Actual Net Income X 3%)	\$31,859,505
Total Incentive Payments	\$31,859,505

**STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)**

FINANCIAL STATEMENTS (CONTINUED)

Statements of Cash Flows

The statements of cash flows are summarized (in millions) as follows:

	Years Ended June 30,		
	2018	2017	2016
Cash flows provided by operating activities	\$ 1,064	\$ 993	\$ 1,042
Cash flows used in non-capital financing activities	(1,037)	(964)	(1,017)
Cash flows (used in) provided by investing activities	(34)	(22)	(28)
Net increase (decrease) in cash	<u>\$ (7)</u>	<u>\$ 7</u>	<u>\$ (3)</u>

SUMMARY

In early fiscal year 2018, the Division of State Lottery launched Quick Draw, a keno style game where winning numbers are electronically drawn and then displayed on a television screen installed at retail locations. Quick Draw is a social space game. It was available predominantly in public venues such as bars and restaurants, before being expanded to the entire Lottery retailer network in early Fiscal 2019.

With Quick Draw, players can purchase a play for a \$1.00 minimum up to a \$10.00 maximum. Prizes range from \$1.00 up to \$1,000,000.00 depending on the purchase amount. Quick Draw is unique from other lottery games in the sense that many people can participate and engage with the game simultaneously via the large television screen enhancing interaction in social spaces. The game also provides an opportunity to a new set of businesses which do not currently offer traditional lottery games. In Fiscal 2019 the "Bullseye" feature was added, increasing the number of ways a player can win.

In conjunction with the Fiscal 2018 Appropriations Act, Governor Christie signed the Lottery Transfer Act (Chapter 98 of the Public Law of 2017) into law. The Lottery Transfer Act and the subsequent Memorandum of Lottery Contribution (MOLC) entered into between the State Treasurer and the Division of Investment, effectively transferred Lottery net revenues to the newly established Pension Fund L for the purposes of providing funding to select units of New Jersey's major public employee pension systems.

Both the legislation and the MOLC require that retained assets and liabilities of the Lottery existing prior to the transfer date (July 1, 2017), not be transferred to Pension Fund L for a thirty-year term. This requirement compels the Division of State Lottery, specifically its Finance Department, to maintain two general ledgers. The pre-existing (or residual) State Lottery Fund ledger accounts for all activity associated with those pre-existing assets and liabilities and new general ledger accounts for all the obligations and assets resulting from lottery sales and games emanating on and after the July 1, 2017, transfer date.

**STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)**

SUMMARY (CONTINUED)

The Lottery Transfer Act and the resulting requirement to maintain two general ledgers is a significant event that impacts the agency's financial statements beginning in fiscal year 2018 and for years to come.

Other recently passed legislation impacting the Division of State Lottery is the Lottery Courier Law (Chapter 11 of the Public Laws of 2017). This legislation, which went into effect in November 2017, required the Lottery to promulgate extensive rules and regulations governing the activity of the lottery couriers. The promulgated regulations went into effect in August 2018.

Prior to the passage of this law, services provided by a lottery courier were not regulated anywhere in the United States although a few states were permitting such couriers to operate.

In accordance with the Courier Law, and the subsequently enacted regulations, couriers will be required to maintain certain cyber security and technology standards. The Division of State Lottery will be regularly auditing registered couriers to ensure that they are in compliance with the provisions of the law.

The Courier Law has no direct impact on the Division of State Lottery's financial statements for the year ended June 30, 2018.

CONTACTING THE DIVISION'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens with a general overview of the Division of State Lottery's finances. If you have any questions about this report or need additional financial information, contact the Division of State Lottery's Deputy Director of Finance at One Lawrence Park Complex, 1333 Brunswick Avenue, PO Box 041, Lawrenceville, New Jersey 08625-0041.

INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

State of New Jersey
Department of the Treasury
Division of State Lottery

Report on the Financial Statements

We have audited the accompanying financial statements of the State of New Jersey, Division of State Lottery (the "Division of State Lottery") as of and for the years ended June 30, 2018 and 2017, and the related notes to financial statements, which comprise the Division of State Lottery's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Division of State Lottery's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Division of State Lottery as of June 30, 2018 and 2017, and the respective changes in its financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages one through seven be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Division of State Lottery's basic financial statements. The accompanying schedules of revenues, expenses and changes in net position budget and actual, net position, revenues, expenses and changes in net position, instant game revenues, and administrative expenses are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information except for the portion marked "unaudited," has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the portion marked "unaudited," the schedules of revenues, expenses and changes in net position budget and actual, net position, revenues, expenses and changes in net position, instant game revenues, and administrative expenses are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The schedule of Northstar NJ net income targets as listed in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2019, on our consideration of Division of State Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division of State Lottery's internal control over financial reporting and compliance.

Mercadieu, P.C.

Certified Public Accountants

February 14, 2019

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

STATEMENTS OF NET POSITION

	June 30,	
	2018	2017
ASSETS		
<u>Current Assets:</u>		
Cash	\$ 199,968	\$ 7,204,746
Accounts receivable, net of allowance for doubtful accounts of \$2,522,995 and \$3,109,635 in 2018 and 2017, respectively	14,634,218	8,596,404
Deferred Expenses	1,508,421	1,703,996
Investments:		
Deposit Fund Contracts	24,682,106	25,983,704
State of New Jersey Cash Management Fund	250,280,682	243,886,611
Total current assets	<u>291,305,395</u>	<u>287,375,461</u>
<u>Non Current Assets:</u>		
Investments - deposit fund contracts	<u>209,860,703</u>	<u>228,216,100</u>
Total non-current assets	<u>209,860,703</u>	<u>228,216,100</u>
Total assets	<u><u>\$ 501,166,098</u></u>	<u><u>\$ 515,591,561</u></u>
LIABILITIES		
<u>Current Liabilities:</u>		
Accounts payable and accrued expenses	\$ 85,840,737	\$ 53,558,867
Obligation for unpaid prize awards	54,917,184	72,533,872
Installment prize awards	24,682,106	25,983,704
Due To State of New Jersey	126,296,012	133,000,000
Total current liabilities	<u>291,736,039</u>	<u>285,076,443</u>
<u>Non Current Liabilities:</u>		
Compensated absences	588,831	671,479
Installment prize awards	<u>207,385,703</u>	<u>228,216,100</u>
Total non current liabilities	<u>207,974,534</u>	<u>228,887,579</u>
Total Liabilities	<u>499,710,573</u>	<u>513,964,022</u>
NET POSITION		
Restricted for prize awards or contributions	1,000,000	826,559
Unrestricted	<u>455,525</u>	<u>800,980</u>
Total Net Position	<u><u>\$ 1,455,525</u></u>	<u><u>\$ 1,627,539</u></u>

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Years ended June 30,	
	2018	2017
Operating revenues		
Ticket Sales		
Pick 3	\$ 421,314,899	\$ 429,556,948
Pick 4	267,152,439	273,452,759
Jersey Cash 5	154,151,709	165,040,813
Pick 6 Lotto	63,388,757	52,446,644
Cash 4 Life	41,619,762	40,950,780
Mega Millions	180,357,218	135,511,285
Powerball	231,872,739	213,478,557
Quick Draw	53,293,153	-
Fastplay	29,365,352	26,904,333
Niche Games (5 Card Cash)	5,521,419	10,512,394
Bonus Draw	-	35,824
Instant	1,911,034,446	1,887,940,043
Sales Discounts/Tickets Provided as Prizes	(59,369,142)	(48,920,486)
Total Ticket Sales	<u>3,299,702,751</u>	<u>3,186,909,893</u>
Other revenues		
Forfeited Prizes	52,361,976	45,230,927
Miscellaneous	1,333,000	1,041,713
Total operating revenues	<u>3,353,397,727</u>	<u>3,233,182,532</u>
Operating expenses		
Prize expenses	1,991,568,091	1,927,302,259
Retailer commissions	188,372,918	181,905,365
Instant ticket vendor printing fees	23,544,946	24,876,907
Gaming system vendor fees	35,280,003	34,195,452
Northstar NJ management fee	5,163,528	5,056,829
Northstar NJ manager expenses	14,529,015	13,372,927
Northstar NJ advertising & marketing expenses	26,580,770	24,793,452
Administration expenses	9,160,858	9,418,452
Multi-State fees	50,569	42,024
Drawing broadcast fees	428,583	530,291
Bad debt expense	-	634,000
Total Operating Expenses	<u>2,294,679,281</u>	<u>2,222,127,958</u>
Operating Income	1,058,718,446	1,011,054,574
Non-operating revenue	3,265,058	2,087,359
Income Before Transfers	1,061,983,504	1,013,141,933
Northstar NJ incentive payment	(31,859,505)	(28,961,387)
Income available for Transfer	<u>1,030,123,999</u>	<u>984,180,546</u>
Transfers out		
Contributions to Pensions	976,000,000	-
Contributions to Treasury	54,296,012	994,000,000
Total Transfers Out	<u>1,030,296,012</u>	<u>994,000,000</u>
Changes in net position	(172,013)	(9,819,454)
Net position, beginning of year	1,627,539	11,446,993
Net position - end of year	<u>\$ 1,455,525</u>	<u>\$ 1,627,539</u>

See notes to financial statements.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

STATEMENTS OF CASH FLOWS

	Years ended June 30,	
	2018	2017
Cash Flows from Operating Activities		
Sales to customers	\$ 1,536,810,650	\$ 1,497,304,267
Payments for prize awards	(376,793,931)	(389,661,085)
Payments for vendor commissions and fees	(88,337,283)	(113,830,053)
Payments to suppliers	(10,413,143)	(10,048,217)
Other payments	(9,037,053)	(21,584)
Cash flows from annuity operations		
Annuity receipts	23,899,204	26,759,204
Purchases of annuities	(3,359,686)	-
Payments of annuity prizes	(8,494,136)	(17,358,486)
Net cash provided by operating activities	1,064,274,622	993,144,046
Cash Flows used in Non-Capital Financing Activities		
Contributions to State	(1,037,000,000)	(964,000,000)
Cash Flows from Investment Activities		
Cash Management Fund proceeds	1,885,953,096	1,194,200,000
Cash Management Fund purchases	(1,891,271,109)	(1,185,600,000)
Payments to Northstar NJ	(28,961,387)	(30,623,965)
Net cash used by investment activities	(34,279,400)	(22,023,965)
Net (Decrease) Increase in cash	(7,004,778)	7,120,081
Cash, beginning of year	7,204,746	84,665
Cash, end of year	\$ 199,968	\$ 7,204,746
Reconciliation of operating income to net cash provided by operating activities		
Operating Income	\$ 1,058,718,446	\$ 1,011,054,574
Changes in assets and liabilities		
Accounts receivable	(6,037,814)	37,591,931
Investments - deposit fund contracts	21,845,995	(1,677,084)
Other assets	195,575	986,567
Accounts payable and accrued expenses	29,383,752	(9,014,449)
Obligation for unpaid prize awards	(39,748,683)	(45,735,341)
Compensating absences	(82,648)	(62,152)
Net cash provided by operating activities	\$ 1,064,274,622	\$ 993,144,046

See notes to financial statements.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The State of New Jersey, Division of State Lottery (the "Division of State Lottery") and the State Lottery Commission (the "Commission") were concurrently established in 1970, pursuant to the "State Lottery Law" (N.J.S.A. 5:9-1 et seq.). The "Lottery Enterprise Contribution Act" ("LECA") approved in 2017, directs the Lottery Enterprise for the benefit of the Teachers' Pension and Annuity Fund ("TPAF"), the Public Employees' Retirement System ("PERS"), and the Police and Firemens' Retirement System ("PFRS"). Under the LECA the entirety of the Lottery Enterprise will be contributed to Pension Fund L, a common trust fund created and formed for the benefit of TPAF, PERS and PFRS for a period of 30 years. With the exception of a few retained assets and liabilities, all of the assets and liabilities of the Division of State Lottery were transferred to Pension Fund L on July 1, 2017. Under the LECA there is no material change in the Division of State Lottery's operation and management, which will continue in its existing form as a division within the Department of the Treasury. The Commission consists of the State Treasurer, the director of the Division of (State) Investment and five public members, and 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, and the apportionment of ticket revenues. The Division of State Lottery's financial statements are presented as those of a proprietary fund and include the operations for which the Division of State Lottery is financially accountable and exercises oversight responsibility.

Effective July 1, 2017, with the passage of Chapter 98 of the Public Law of 2017, the Lottery Transfer Act and the subsequent Memorandum of Lottery Contribution ("MOLC") entered into between the State Treasurer and the Division of Investment, the Lottery and its resulting net revenues will be transferred to Pension Fund L for a period of thirty years. Both the legislation and the MOLC require that retained assets and liabilities of the Division of State Lottery existing prior to the transfer date (July 1, 2017), not be transferred to Pension Fund L. This requirement compelled the Division of State Lottery, specifically its Finance Department, to maintain two general ledgers. The pre-existing (or residual) Division of State Lottery fund ledger will now only account for all activity associated with those pre-existing assets and liabilities and a new general ledger will account for all the obligations and assets resulting from lottery sales and games emanating on and after the July 1, 2017, transfer date.

The MOLC outlined a six-month transition period for the Division of State Lottery to re-organize its accounting operation in a manner consistent with the spirit and intent of Chapter 98 of the Public Law of 2017. This was necessary to ensure that all the financial reporting, accounting operations, collections activity and accounts receivable functions of the Division of State Lottery are being properly recorded and posted.

Basis of Accounting

The Division of State Lottery prepares its financial statements using the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred.

In its accounting and financial reporting, the Division of State Lottery follows the pronouncements of the Governmental Accounting Standards Board ("GASB") and other entities that promulgate accounting principles. GASB Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, establishes the

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

order of priority of pronouncements and other sources of accounting and financial reporting guidance that a governmental entity should apply. Per the Statement, the sources of authoritative generally accepted accounting principles ("GAAP") are categorized in descending order of authority as follows: GASB Statements and Interpretations, GASB Technical Bulletins, GASB Implementation Guides, and literature of the American Institute of Certified Public Accountants ("AICPA") cleared by the GASB. Authoritative GAAP is incorporated periodically into the *Codification of Governmental Accounting and Financial Reporting Standards* (Codification), and when presented in the Codification, it retains its authoritative status. If the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP described above, a governmental entity should first consider accounting principles for similar transactions or other events within a source of authoritative GAAP described above and then may consider nonauthoritative accounting literature from other sources. These include GASB Concepts Statements; pronouncements and other literature of the Financial Accounting Standards Board ("FASB"), Federal Accounting Standards Advisory Board, International Public Sector Accounting Standards Board, and International Accounting Standards Board, and AICPA literature not cleared by the GASB; practices that are widely recognized and prevalent in state and local government; literature of other professional associations or regulatory agencies; and accounting textbooks, handbooks, and articles.

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 and disclosures. Accordingly, actual results could differ from those estimates.

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.

Accounts Receivable

Accounts receivable is comprised primarily of amounts due from retailers. The allowance for uncollectible accounts is funded by a \$100 per year license renewal fee paid by the Division of State Lottery's retailers. Operating expense is charged with an allowance for estimated uncollectible accounts based on past experience and an analysis of current accounts receivable collectability. Accounts deemed uncollectible are charged to the allowance in the year they are deemed uncollectible.

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 Division of State Lottery for prize disbursements. For each lottery winner that chooses to receive their prize in installments, the Division of State Lottery purchases annuity contracts from insurance companies and U.S. government securities to fund its liability for installment prize awards. An annuity contract represents an obligation by an insurance company to provide a fixed series of payments over a specified period. Annuity contracts are subject to credit risk. The Division of State Lottery seeks to control its exposure to such credit risk by purchasing annuity contracts only from insurance companies that meet certain minimum standards.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Installment Prize Awards and Prize Expenses (Continued)

Due to the long-term nature of these contracts, the credit quality of the issuer is subject to change. 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. These annuities are presented on the statements of net position as deposit fund contracts, carried at contract value which approximates fair value.

Equipment

The Division of State Lottery follows the State's threshold for capitalizing equipment as follows: machinery and equipment over \$20,000 and motor vehicles over \$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 position in the period during which they are acquired and are included in administrative expenses.

Net Position

Restricted

Amounts restricted for prize awards or contributions for aid to education and state institutions consist of prizes that are not claimed within one year from the date of the drawing for machine games and within one year from the date of game's closing for instant games.

Unrestricted

The unrestricted net position represents resources available for current operating expenses in compliance with legal and budgetary restrictions.

Revenue Recognition

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

- "Pick-3 Fireball", "Pick-4 Fireball", "Jersey Cash 5 Xtra", "Pick-6 Xtra", "Mega Millions", "Megaplier", "Powerball", "Power Play", "CASH4LIFE Doubler", "Quick Draw" and "5 Card Cash All In" games on the drawing date.
- Instant games are recognized 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.
- Fastplay games upon the sale of each ticket.
- Sales discounts are recorded for the sales value of tickets provided to retailers at no cost, to be used for promotional purposes. Tickets provided as prizes are recorded as sales at the face value of each ticket, then backed out as discounts and are not included in prize expense.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS

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 for machine games and within one year from the date of the game's closing for instant games be forfeited. Effective November 21, 1991, the Commission authorized that 70% of forfeited prizes are to be maintained in a reserve for prize awards and are available to augment future prize awards or, at the discretion of the executive director, to augment the Division of State Lottery's contribution for state aid for education and state institutions.

The remaining 30% goes directly to contributions to aid education and institutions in conformance with the LECA. This is consistent with the 30% minimum contribution requirement of the State Lottery Law. Forfeited prizes are recognized as "Other Revenues" during the period forfeited.

Contributions and Prize Awards

The State Lottery Law in conformance with the LECA, requires no less than 30% of total revenues accruing from ticket sales to be paid for state aid for education and state institutions on an annual basis.

For machine games, the Division of State Lottery 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.

Commissions and Fees

Retailers receive a commission of 5% based on the total tickets sold, a commission of 1.25% of terminal validations and top tier selling bonuses. The online 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.

Northstar New Jersey Lottery Group, LLC ("Northstar NJ or NSNJ") has had numerous retailer incentive programs for the purpose of boosting sales, these include temporary commission increases and bonuses. Both of these incentives are recorded as prize expense.

Administrative Expenses

The Division of State Lottery records vacation and sick time incurred during the period in "administrative expenses" in the accompanying statements of revenues, expenses and changes in net position. Payments for accumulated sick leave balances are made to retiring employees upon regular retirement from the State of New Jersey's General Fund. Such 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.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS

B. CASH AND INVESTMENTS

The Division of State Lottery adopted GASB Statement No. 40, "*Deposit and Investment Risk Disclosures*," which requires uncollateralized deposits exposed to custodial credit risk to be disclosed. The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits that are in possession of an outside party. The following is a summary of the Division of State Lottery's cash deposits by financial institution that could be exposed at June 30, 2018 and 2017. The Division of State Lottery's deposits with Wells Fargo are insured by the Federal Deposit Insurance Corporation up to \$250,000.

	June 30,	
	2018	2017
Wells Fargo	\$ 199,968	\$ 7,204,746
New Jersey Cash Management Fund	250,280,682	243,886,611
Total	<u>\$ 250,480,650</u>	<u>\$ 251,091,357</u>

The New Jersey Cash Management Fund ("NJCMF") is a common trust fund administered by the Department of the Treasury, Division of Investment. NJCMF is considered to be an investment trust fund as defined in Governmental Accounting Standards Board (GASB) Statement No. 31. NJCMF funds are not subject to custodial credit risk due to the fact that the funds are held by and in the name of the NJCMF in a segregated trust account with the third-party custodian rather than in the possession of the third-party custodian. Additionally, though the underlying assets and investments of the NJCMF pool are subject to credit risk, the risk is limited by the mix of the credit quality ratings of the assets in the portfolio maintained by NJCMF.

Fair Value Measurements

The Division of State Lottery follows the Fair Value Measurements Topic of the GASB Accounting Standards, which provides a framework for measuring fair value under accounting principles generally accepted in the United States of America.

The Division of State Lottery categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS

B. CASH AND INVESTMENTS (CONTINUED)

Fair Value on a Recurring Basis

The table below presents the balances of investments - deposit fund contracts measured at fair value on the statement of net position as of June 30, 2018 and 2017:

	June 30, 2018			
	Total	Level 1	Level 2	Level 3
Annuity Investment Deposit				
Fund Contracts	\$ 234,542,809	\$ 39,622,971	\$ -	\$ 194,919,838
Total	<u>\$ 234,542,809</u>	<u>\$ 39,622,971</u>	<u>\$ -</u>	<u>\$ 194,919,838</u>
	June 30, 2017			
Annuity Investment Deposit				
Fund Contracts	\$ 254,199,804	\$ 40,328,240		\$ 213,871,564
Total	<u>\$ 254,199,804</u>	<u>\$ 40,328,240</u>	<u>\$ -</u>	<u>\$ 213,871,564</u>

C. FUTURE INSTALLMENT PRIZE AMOUNTS

The Division of State Lottery purchases annuity, or deposit fund contracts, from insurance companies and U.S. government securities to fund its liability for future installment prize awards. Generally, insurance company annuity contracts fund life annuities for games such as the CASH4LIFE Doubler draw game and Win for Life instant games. U.S. government securities fund term annuity prizes for games such as Pick 6 Xtra, Mega Millions, Powerball and instant games. 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 prices adjusted for credited interest and amounts already received by the Division of State Lottery and disbursed to annuitants. Annuity contracts are subject to credit risk. The Division of State Lottery seeks to control its exposure to such credit risk by purchasing annuity contracts only from insurance companies that meet certain minimum standards. Such standards include the following requirements:

1. Combined capital and surplus of at least \$1 billion;
2. Admitted assets of at least \$10 billion;
3. Risk based capital ratio of at least 300%; and
4. Must have ratings equal to or better than at least two of the three private rating agencies:
 - Standard & Poor's long-term insurer financial strength rating of AA- or higher
 - AM Best financial strength rating of "A" or higher
 - Moody's long-term insurance financial strength rating of "Aa3" or higher.

According to the Division of State Lottery's calculation, only one company does not meet the criteria, that of Delaware Life, formerly Sun Life Assurance; as of June 30, 2018 and 2017, Delaware Life had annuity contracts totaling approximately \$19,931,178 and \$20,102,781, respectively. However, due to the long-term nature of these contracts, the credit quality of the issuer is subject to change.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS

C. FUTURE INSTALLMENT PRIZE AMOUNTS (CONTINUED)

At June 30, 2018 and 2017, the Division of State Lottery held insurance company annuity contracts totaling \$194,919,838 and \$213,871,564, respectively, issued through eleven insurance companies, which are due in installments ranging from twenty-five years to the lifetime of the recipient. The estimated fair value of annuity contracts approximates the carrying value reflected in the accompanying statement of net position at June 30, 2018 and 2017.

U.S. government securities are carried at fair value. At June 30, 2018 and 2017, the Division of State Lottery had \$39,622,971 and \$40,328,240, respectively, in U.S. treasuries included in guaranteed annuity contracts (see financial statement footnote B).

Concentrations of Credit Risk

“Concentration of Credit Risk” is the risk that relates to the amount of investment at any one entity. The disclosure requirement of this risk factor is limited to investments in excess of 5% of the total. Guaranteed annuity contracts, as stated above, are the only category subject to concentration of credit risk disclosure.

A significant portion (in excess of 5% of total) of the Division of State Lottery's investment in annuity contracts at June 30, 2018 and 2017, is invested with each of the following five companies:

- Ohio National Life
- New York Life Insurance Co.
- Protective Life
- Metropolitan Life
- Delaware Life (formerly Sun Life Assurance)

D. LITIGATION

The Division of State Lottery 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 Division of State Lottery cannot be predicted with certainty, management of the Division of State Lottery does not expect that these matters will have a material adverse effect on the financial position or results of operations of the Division of State Lottery.

E. COMMITMENTS

Contractual Arrangements

The Division of State Lottery maintains a gaming network of over 7,200 retailer locations where all games are sold. IGT Corporation, formerly GTECH Corporation, is responsible for operating the network games and procurement of instant tickets (scratch offs) under a contract that was assigned to Northstar NJ on October 1, 2013, and expires concurrent with Northstar NJ's contract.

On June 20, 2013, a competitively bid 15-year contract was awarded to Northstar New Jersey Lottery Group, LLC (“NSNJ”) to provide sales and marketing services to the Division of State Lottery. Northstar New Jersey Lottery Group, LLC is owned directly by two members: (1) Scientific Games New Jersey, LLC, and (2) Northstar New Jersey Holding Company, LLC, and indirectly by three companies: (1) IGT Corporation and (2) OSI LTT NJ Holdings Inc., which are the Members of Northstar New Jersey Holding Company, LLC, and (3) Scientific Games International, Inc., which is the owner of Scientific Games New Jersey, LLC. The base services commenced on October 1, 2013. The contract required NSNJ to bid net income targets for each Fiscal Year of the 15-year contract. An amendment signed on December 31, 2015, revised the income level and targets downward for contract years 3 through 15. The amended contract provided for an allowance of \$2.5 million from Northstar NJ to the Division of State Lottery as an additional consideration for the terms contained therein. If NSNJ meets or exceeds the net income target for a given Fiscal Year, they can earn an incentive pay or

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS

E. COMMITMENTS (CONTINUED)

Contractual Arrangements (Continued)

alternatively, if they don't meet the net income target, they are assessed a penalty.

The Northstar NJ contract provided for an allowance of \$20 million to offset any potential contribution shortfall payments over the life of the contract. This allowance was exhausted in fiscal years 2014 and 2015. For Fiscal Years 2018 and 2017, NSNJ met its amended contractual net income target resulting in an incentive contribution due to NSNJ of \$31,859,505 and \$28,961,387, respectively.

Prior to the beginning of each Fiscal Year the Division of State Lottery and Northstar NJ agree to an annual business plan that includes the projected operating expenses of Northstar NJ for the Fiscal Year. Each month NSNJ may invoice the Division of State Lottery one twelfth (1/12) of the total operating expenses for the Fiscal Year. Each monthly invoice is accompanied by detailed backup data and information supporting expenses incurred. At the end of the Fiscal Year Northstar NJ operating expenses are aggregated and reconciled with any excess returned to the Division of State Lottery. The Northstar NJ expenses for services to the Division of State Lottery amounted to \$46,273,313 and \$43,223,208 for the years ended June 30, 2018 and 2017, respectively.

In addition to the budgeted monthly expenditures, NSNJ receives a system provider vendor fee based on 1.05% of ticket sales and an instant ticket printing fee based on 1.216% of ticket sales as part of its subcontractor agreements. All other gaming contractors are paid fees based on the units of service provided.

Operating Leases

The Division of State Lottery leases certain office facilities and equipment under non-cancelable operating lease agreements expiring through Fiscal Year 2024. Future minimum lease payments for office facilities are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2019	\$ 648,583
2020	655,750
2021	655,750
2022	655,750
2023	655,750
2024	273,229
	<u>\$ 3,544,812</u>

Rent expense for office facilities and equipment for the years ended June 30, 2018 and 2017, was \$840,845 and \$1,080,369, respectively.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS

F. GASB STATEMENT NUMBER 75 - ACCOUNTING AND FINANCIAL REPORTING FOR POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

The Division of State Lottery is a member of the State of New Jersey's cost sharing multiple-employer plan for health and post-retirement medical benefits. Thus, the Division of State Lottery's portion of this liability and cost is included in the State of New Jersey's Comprehensive Annual Financial Report. As such, the Liability of Division of State Lottery's employees is covered under the State plan on an annual basis. Please refer to State website www.state.nj.us/treasury/pensions/annrpts.shtml for more information regarding the plan.

G. PENSION PLAN

The Division of State Lottery's employees, as part of the Department of the Treasury, participate in the Public Employees Retirement System of New Jersey ("PERS"), a cost sharing multiple-employer defined benefit plan. The Division of State Lottery's contribution is determined by State statute and is based upon an actuarial computation performed by the PERS.

The Division of State Lottery's total covered payroll for the years ended June 30, 2018, 2017 and 2016, was \$5,800,901, \$5,749,046, and \$5,910,857, respectively. The State of New Jersey's (the "State") contribution is based on the employer contribution rate developed by the system's actuary. The rate is then applied against the pension eligible salary for all State employees. The State does not keep track of contributions made to PERS for each separate state agency. For fiscal year ended June 30, 2018, the contribution rate was 7.5%.

The State of New Jersey, Division of Pensions and Benefits, issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State of New Jersey, Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295 or by visiting their website at: www.state.nj.us/treasury/pensions.

H. ROUNDING

Some schedules in the financial statements may have dollar differences due to rounding adjustments.

I. SUBSEQUENT EVENTS

Subsequent events were evaluated through February 14, 2019, which is the date that the financial statements were available to be issued. No items were noted that required disclosure.

SUPPLEMENTARY INFORMATION

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - BUDGET AND ACTUAL

Year ended June 30, 2018

	Budget (unaudited)	Actual	Variance (unfavorable) favorable
Operating revenues			
Ticket Sales			
Pick 3 w/Fireball	\$ 430,541,700	\$ 421,314,899	\$ (9,226,801)
Pick 4 w/Fireball	273,887,600	267,152,439	(6,735,161)
Jersey Cash 5 XTRA	158,057,900	154,151,709	(3,906,191)
Pick 6 XTRA	51,564,000	63,388,757	11,824,757
Cash 4 Life w/Doubler	39,792,700	41,619,762	1,827,062
Mega Millions	143,691,800	180,357,218	36,665,418
Powerball	214,515,000	231,872,739	17,357,739
Quick Draw	56,369,500	53,293,153	(3,076,347)
Fastplay	25,497,700	29,365,352	3,867,652
Niche Games (5 Card Cash)	11,874,800	5,521,419	(6,353,381)
Bonus Draw	-	-	-
Instant	1,929,113,300	1,911,034,446	(18,078,854)
Sales Discounts/Tickets Provided as Prizes	(44,829,400)	(59,369,142)	(14,539,742)
Total Ticket Sales	<u>3,290,076,600</u>	<u>3,299,702,751</u>	<u>9,626,151</u>
Other revenues			
Forfeited Prizes	45,100,000	52,361,976	7,261,976
Miscellaneous	1,500,000	1,333,000	(167,000)
Total operating revenues	<u>3,336,676,600</u>	<u>3,353,397,727</u>	<u>16,721,127</u>
Operating expenses			
Prize expenses	2,000,928,173	1,991,568,091	9,360,082
Retailer commissions	185,283,298	188,372,918	(3,089,620)
Instant ticket vendor printing fees	23,458,018	23,544,946	(86,928)
Gaming system vendor fees	34,927,731	35,280,003	(352,272)
Northstar NJ management fee	5,163,528	5,163,528	-
Northstar NJ manager expenses	16,838,000	14,529,015	2,308,985
Northstar NJ advertising & marketing expenses	26,780,000	26,580,770	199,230
Administration expenses	13,271,000	9,160,858	4,110,142
Multi-State fees	150,000	50,569	99,431
Drawing broadcast fees	250,000	428,583	(178,583)
Bad debt expense	600,000	-	600,000
Instant Enhancement/License Fees	1,000,000	-	1,000,000
Total Operating Expenses	<u>2,308,649,748</u>	<u>2,294,679,281</u>	<u>13,970,467</u>
Operating Income	<u>1,028,026,852</u>	<u>1,058,718,446</u>	<u>30,691,594</u>
Non-operating revenue	<u>200,000</u>	<u>3,265,058</u>	<u>3,065,058</u>
Income (Loss) Before Transfers	<u>1,028,226,852</u>	<u>1,061,983,504</u>	<u>33,756,652</u>
Northstar NJ incentive payment	(24,212,796)	(31,859,505)	(7,646,709)
Income available for Transfer	<u>1,004,014,056</u>	<u>1,030,123,999</u>	<u>26,109,943</u>
Transfers out:			
Contributions to Pensions	1,004,015,584	976,000,000	28,015,584
Contributions to Treasury	-	54,296,012	(54,296,012)
Change in net assets	<u>(1,528)</u>	<u>(172,013)</u>	<u>(170,485)</u>
Net assets, beginning of year	<u>1,627,539</u>	<u>1,627,539</u>	<u>-</u>
Net assets - end of year	<u>\$ 1,626,011</u>	<u>\$ 1,455,525</u>	<u>\$ (170,485)</u>

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

SCHEDULE OF NET POSITION

					As of June 30, 2018			
					Treasury	Pension Fund L	Elimination Entries	Total
ASSETS								
<u>Current Assets:</u>								
Cash	\$	-	\$	199,968	\$	-	\$	199,968
Accounts receivable, net of allowance for doubtful accounts of \$2,522,995 and \$3,109,635 in 2018 and 2017, respectively		10,212,099		4,422,119		-		14,634,218
Deferred Expenses		1,514,749		(6,328)		-		1,508,421
Interfunds Receivable		-		213,297,950		(213,297,950)		-
Investments:								-
Deposit Fund Contracts		24,482,106		200,000		-		24,682,106
State of New Jersey Cash Management Fund		243,886,611		6,394,071		-		250,280,682
Total current assets		280,095,564		224,507,780		(213,297,950)		291,305,395
<u>Non Current Assets:</u>								
Investments - deposit fund contracts		206,701,017		3,159,686		-		209,860,703
Total non-current assets		206,701,017		3,159,686		-		209,860,703
Total Assets		<u>\$486,796,581</u>		<u>\$227,667,466</u>		<u>\$(213,297,950)</u>		<u>\$501,166,098</u>
LIABILITIES								
<u>Current Liabilities:</u>								
Accounts payable and accrued expenses	\$	1,208,499	\$	84,632,238	\$	-	\$	85,840,737
Obligation for unpaid prize awards		285,998		54,631,186		-		54,917,184
Installment prize awards		24,482,106		200,000		-		24,682,106
Interfunds Payable		213,297,950		-		(213,297,950)		-
Due To State Of New Jersey - Treasury Out		43,296,012		83,000,000		-		126,296,012
Total current liabilities		<u>282,570,564</u>		<u>222,463,424</u>		<u>(213,297,950)</u>		<u>291,736,039</u>
<u>Non Current Liabilities:</u>								
Compensated absences		-		588,831		-		588,831
Installment prize awards		204,226,017		3,159,686		-		207,385,703
Total non current liabilities		<u>204,226,017</u>		<u>3,748,517</u>		<u>-</u>		<u>207,974,534</u>
Total Liabilities		<u>486,796,581</u>		<u>226,211,941</u>		<u>(213,297,950)</u>		<u>499,710,573</u>
NET POSITION								
Restricted for prize awards or contributions to State		500,000		500,000		-		1,000,000
Unrestricted		(500,000)		955,525		-		455,525
Total Net Position		<u>\$ -</u>		<u>\$ 1,455,525</u>		<u>\$ -</u>		<u>\$ 1,455,525</u>

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Year Ended June 30, 2018		
	Treasury	Pension Fund L	Total
Operating revenues			
Ticket Sales			
Pick 3 Fireball	\$ -	\$ 421,314,899	\$ 421,314,899
Pick 4 Fireball	-	267,152,439	267,152,439
Jersey Cash 5 Xtra	-	154,151,709	154,151,709
Pick 6 Xtra	-	63,388,757	63,388,757
Cash 4 Life	-	41,619,762	41,619,762
Mega Millions	-	180,357,218	180,357,218
Powerball	-	231,872,739	231,872,739
Quick Draw	-	53,293,153	53,293,153
Fastplay	-	29,365,352	29,365,352
5 Card Cash All In	-	5,521,419	5,521,419
Instant	78,439	1,910,956,007	1,911,034,446
Sales Discounts	-	(59,369,142)	(59,369,142)
Total Ticket Sales	78,439	3,299,624,312	3,299,702,751
Other revenues			
Forfeited Prizes	52,361,976	-	52,361,976
Miscellaneous	282,949	1,050,051	1,333,000
Total operating revenues	52,723,364	3,300,674,363	3,353,397,727
Operating expenses			
Prize expenses	34,229	1,991,533,862	1,991,568,091
Retailer commissions	(8,135)	188,381,053	188,372,918
Instant ticket vendor printing fees	-	23,544,946	23,544,946
Gaming system vendor fees	918	35,279,085	35,280,003
Northstar NJ management fee	-	5,163,528	5,163,528
Northstar NJ manager expenses	-	14,529,015	14,529,015
Northstar NJ advertising & marketing expenses	-	26,580,770	26,580,770
Administration expenses	27,879	9,132,979	9,160,858
Multi-State fees	-	50,569	50,569
Drawing broadcast fees	-	428,583	428,583
Total Operating expenses	54,891	2,294,624,390	2,294,679,281
Operating Income	52,668,473	1,006,049,973	1,058,718,446
Non-operating revenue			
Interest	-	3,265,058	3,265,058
Income before transfers out	52,668,473	1,009,315,031	1,061,983,504
Northstar NJ incentive payment	-	(31,859,505)	(31,859,505)
Income available for transfer	52,668,473	977,455,525	1,030,123,999
Transfers out			
Contributions to Pensions	-	976,000,000	976,000,000
Contributions to Treasury	54,296,012	-	54,296,012
Total transfers out	54,296,012	976,000,000	1,030,296,012
Changes in net position	(1,627,539)	1,455,525	(172,013)
Net position, beginning of year	1,627,539	-	1,627,539
Net position - end of year	\$ -	\$ 1,455,525	\$ 1,455,525

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

SCHEDULE OF INSTANT GAME REVENUES

	Years Ended June 30,	
	2018	2017
\$5,000,000 FORTUNE	\$ 151,783,440	\$ 80,869,230
\$200 MILLION CASH BONANZA	142,471,520	-
100 X THE BUCKS	94,603,614	25,608,020
PLATINUM DIAMOND SPECTACULAR	51,237,150	93,082,660
5X THE BUCKS	50,846,812	-
\$1,000,000 SPECTACULAR	50,626,750	-
INSTANT CASH MILLIONAIRE	44,914,900	-
MEGA CROSSWORD	42,120,718	184,800
CROSSWORD	41,762,992	-
CROSSWORD	39,335,313	-
\$5,000,000 LUCKY 7s	36,050,100	-
DAZZLING DIAMOND SPECTACULAR	33,914,940	-
\$1,000,000 MAYHEM	32,952,825	68,917,862
20X THE BUCKS	29,894,520	-
WIN FOR LIFE	28,188,043	3,878,868
CASH BASH	27,170,560	-
SUPER CROSSWORD	27,025,003	-
\$500,000 RICHES	27,010,334	-
SUPER CROSSWORD	26,930,220	-
\$500 FRENZY	25,981,125	-
SUPER CROSSWORD	25,161,421	-
BIG MONEY SPECTACULAR	25,005,588	-
\$10,000 BONUS	24,626,946	-
BIG MONEY SPECTACULAR	24,613,213	-
DIAMONDS AND DOLLARS	24,482,162	-
\$1,000,000 GOLD RUSH	23,516,130	-
7	23,429,260	-
BIG MONEY SPECTACULAR	23,136,117	-
SUPER CASINO	23,059,270	-
\$150,000 POKER	20,816,452	-
HOT SPOT BINGO	19,431,900	1,385,695
LUCKY TIMES 20	19,072,310	-
POWER PLAY CROSSWORD	17,987,310	-
\$250,000 CROSSWORD	17,845,799	-
CASH IN A FLASH	17,814,160	5,721,330
\$250,000 CROSSWORD	17,711,960	-
\$250,000 CROSSWORD	17,312,938	-
PINK DIAMOND BINGO	17,202,230	-
HOLIDAY SPECTACULAR	16,930,970	-
\$200,000 GOLD RUSH	16,909,185	-
\$250,000 CROSSWORD	16,123,004	-
LADY LUCK	16,108,821	10,876,405
HIGH CARD POKER	15,659,735	-
LOTERIA (D)	15,252,828	1,133,025
MULTIPLIER MANIA	14,933,040	20,750,360
JERSEY CASH BLOWOUT	14,802,190	-
10X THE BUCKS	14,141,082	-
LUCKY 7s MULTIPLIER	13,890,780	31,410,590

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

SCHEDULE OF INSTANT GAME REVENUES (CONTINUED)

	Years Ended June 30,	
	2018	2017
ALL CASH MILLIONS	13,691,200	50,534,860
DOUBLE WIN	13,435,943	-
SUPER CROSSWORD	13,041,045	13,909,685
HOLIDAY LUCKY TIMES 10	13,030,985	-
CROSSWORD	12,324,223	29,390,772
BIG MONEY SPECTACULAR	11,778,409	13,083,776
INSTANT BINGO	11,128,457	-
\$500 MONEY MADNESS	10,237,290	14,301,525
\$20,000 GOLD RUSH	9,817,676	-
BLACKOUT BINGO	9,572,032	-
SIZZLIN HOT 7S	9,353,260	-
HIT \$100!	9,335,001	-
DOUBLE MATCH	9,041,198	-
MILLION DOLLAR MULTIPLIER	9,024,880	-
\$250,000 CROSSWORD	8,944,510	8,265,400
BLACK AND GOLD	8,861,335	14,283,885
ALL CASH CLUB	8,754,385	2,987,560
RUBY RED RICHES	7,833,875	-
LOVE TO WIN DOUBLER	7,542,053	-
\$10K BLOWOUT	7,304,130	25,075,403
WIN FOR LIFE	7,237,209	-
FAST MONEY	7,182,194	-
MONEY VAULT	7,088,488	8,197,877
INSTANT BINGO	6,731,005	-
HOLIDAY SPARKLE	6,217,555	-
LIBERTY BILLS	6,191,653	1,704,910
LUCKY 7s TRIPLER	5,974,363	22,337,100
MEGA CROSSWORD	5,688,760	-
5X THE BUCKS	5,439,030	-
\$250,000 CROSSWORD	4,996,030	-
LOOSE CHANGE	4,797,499	-
BACKSTAGE PASS TO CASH	4,777,020	-
POCKET CHANGE	4,721,948	-
\$500 MAYHEM	4,685,665	35,912,855
BIRTHDAY SURPRISE	4,665,541	-
LOTERIA	4,616,541	-
MEGA CROSSWORD	4,593,260	38,469,740
LUCKY CATCH	4,458,783	3,349,520
WILD TIME MULTIPLIER	4,329,120	-
LOOSE CHANGE	4,187,530	-
INSTANT BINGO	4,161,847	7,165,182
EXTRA PLAY	3,967,164	25,718,957
SUPER CROSSWORD	3,837,370	-
DOUBLE \$\$	3,815,711	587,458
BIG MONEY SPECTACULAR	3,665,224	-
\$5,000,000 CASH EXTRAVAGANZA	3,088,440	189,157,000
SPRING \$50s	3,013,150	5,078,583
HOT STREAK	2,714,955	16,774,880

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

SCHEDULE OF INSTANT GAME REVENUES (CONTINUED)

	Years Ended June 30,	
	2018	2017
POKER SHOWDOWN	2,652,115	26,406,566
POCKET CHANGE	2,545,391	2,109,184
SUMMER LUCKY TIMES10	2,477,796	-
\$150,000 GOLD RUSH	2,014,979	17,849,686
CROSSWORD	1,861,026	-
BIRTHDAY SURPRISE	1,824,468	4,943,154
BANKROLL BINGO	1,789,140	16,169,550
LUCKY 7s DOUBLE	1,281,791	12,588,906
MONEY BAGS	1,184,206	7,716,802
BINGO BOUNS SQUARE	1,110,985	21,548,871
HIGH CARD POKER	1,058,630	-
LOOSE CHANGE	1,032,965	-
LOTERIA	925,832	15,028,059
RED WHITE & BLUE DOUBLER	823,349	5,351,848
\$250,000 CROSSWORD	697,390	17,023,390
CASH FLURRIES	655,371	7,162,684
WHEEL OF FORTUNE	648,500	21,958,671
CASH IN A FLASH	554,120	34,956,771
CASINO ROYALE	548,565	10,408,330
SUPER CROSSWORD	410,770	26,582,715
\$100,000 WINNING STREAK	362,500	8,663,230
WIN FOR LIFE	348,181	31,365,809
\$20,000 HOLLWOOD CASH FANTASY	330,166	7,055,499
BIG MONEY SPECTACULAR	238,850	24,812,292
\$100 MAYHEM	198,392	13,746,625
BOARDWALK BUCKS	180,578	5,875,174
LUCKY 7s	108,927	4,424,443
POCKET CHANGE	96,539	4,604,323
ALL CASH CLUB	95,165	12,096,703
KISSES & CASH	55,349	7,547,433
DOUBLE DOLLARS	52,163	4,146,838
CROSSWORD	48,720	41,677,093
\$250,000 CROSSWORD	45,660	17,862,670
LUCKY CASH	23,805	-
100X THE CASH	23,720	-
INSTANT BINGO	15,126	-
JINGLE BILLS	9,345	-
SUPER CROSSWORD	8,215	-
\$500,000 WINFALL	8,100	-
LUCKY DAY	7,208	-
LIFE IS GOOD	6,327	-
20X THE CASH	5,210	-
LOTERIA	3,939	-
\$250,000 CROSSWORD	3,430	-
BIG MONEY SPECTACULAR	3,380	-
\$20,000 PAY DAY	2,100	-
LADY LUCK BONUS	2,100	-
50X THE CASH	2,010	-

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

SCHEDULE OF INSTANT GAME REVENUES (CONTINUED)

	Years Ended June 30,	
	2018	2017
HOT RICHES	1,800	-
\$2,000,000 MEGA CASH	1,500	-
10X THE CASH	1,386	-
\$5,000,000 CASH EXTRAVA	600	-
SUPER TIC TAC TOE	600	-
PRIOR YEAR GAME	306	(6,820)
TIC TAC TOE	288	-
HOLIDAY LUCKY TIMES 10	146	-
100X THE CASH	-	54,415,780
DOUBLE DOUBLER	-	1,419,343
LUCKY CASH	-	7,942,475
10X THE CASH	-	8,562,270
20X THE CASH	-	19,972,875
50X THE CASH	-	29,845,935
SUPER CROSSWORD	-	10,251,045
DIAMOND SPECTACULAR	-	300
WIN \$500 A WEEK FOR LIFE	-	65,051
WIN \$1,000 A WEEK FOR LIFE	-	(2)
WIN \$2,500 A WEEK FOR LIFE	-	124,895
\$150,000,000 CASH SPECTACULAR	-	13,897,289
\$2,000,000 MEGA CASH	-	14,115,690
5X MONEY	-	(3,244)
10X MONEY	-	11,512
20X MONEY	-	15,839
50X MONEY	-	(1,060)
GEM 7s	-	2,695
\$500 FRENZY	-	(315)
LOOSE CHANGE	-	3,394
LUCKY LOOT	-	6,875
\$250,000 CROSSWORD	-	(300)
LOTERIA	-	437,064
WORLD SERIES OF POKER	-	(315)
\$10,000 PAYDAY	-	(460)
MONOPOLY (\$1)	-	4,490
MONOPOLY (\$2)	-	10,474
MASSIVE MONEY BINGO	-	(340)
AMC THE WALKING DEAD	-	4,374
TRIPLE WINNING 7s	-	(6,465)
\$20,000 PAY DAY	-	6,030,960
BIRTHDAY BUCKS	-	1,098
BINGO X10	-	(335)
HOLIDAY CASH	-	(654)
HOLIDAY MAGIC	-	(115)
CROSSWORD	-	(300)
CLASSIC BINGO	-	(548)
CANDY CANE CROSSWORD	-	(300)
2015 CASH SPECTACULAR	-	(2)
WIN IT ALL	-	15,230

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

SCHEDULE OF INSTANT GAME REVENUES (CONTINUED)

	Years Ended June 30,	
	2018	2017
LUCKY IN LOVE	-	(300)
CASH BONUS BINGO	-	(2,874)
SUPER CASH SPECTACULAR	-	9,130,181
DOUBLE DIAMOND SPECTACULAR	-	8,220
CHILLY BILLS	-	(46)
CROSSWORD	-	(3,081)
CLASSIC BINGO	-	58,852
BIG MONEY SPECTACULAR	-	(192)
\$5,000,000 CASH EXTRAVAGANZA	-	547,350
BIG CASH SPECTACULAR	-	(2,238)
\$50 FRENZY	-	76,338
\$100 FRENZY	-	648,186
\$500 FRENZY	-	126,180
\$2,500 FRENZY	-	7,429,834
GOLD BAR BINGO	-	8,165
BIRTHDAY BUCKS	-	3,232,610
\$10,000 PAY DAY	-	4,234,950
ESCAPE TO MARGARITAVILLE	-	(4,316)
SUPER TIC TAC TOE	-	2,988
MONOPOLY MILLIONAIRES' CLUB	-	1,269,681
\$5,000 JACKPOT	-	(3,224)
\$30,000 JACKPOT	-	4,638
\$200,000 JACKPOT	-	3,103,890
\$1,000,000 JACKPOT	-	5,186,570
\$250,000 CROSSWORD	-	(1,310)
DOUBLE YOUR LUCK	-	(5,755)
BLOOMIN' BUCKS	-	(6,188)
JOKER'S WILD	-	1,204,610
CASH EXPLOSION	-	(4,366)
WIN FOR LIFE!	-	702,005
\$500,000 FORTUNE	-	11,160
SUPER CROSSWORD	-	(1,380)
BIG CASH SPECTACULAR	-	2,234,902
SUPER SLOTS	-	1,801,285
WILD CHERRY BINGO DOUBLER	-	668,529
DOUBLE MATCH	-	(2,710)
QUICK CHANGE	-	15,335
SUPER CROSSWORD	-	(1,020)
CROSSWORD	-	11,859
BIG MONEY SPECTACULAR	-	3,366
WILD DOUBLER	-	6,008
WILD 10S	-	116,662
WILD CASH	-	5,678,125
WILD CASH BONANZA	-	7,989,216
SUPER CROSSWORD	-	10,065
\$250,000 CROSSWORD	-	2,560
WORLD SERIES OF POKER	-	6,323,160

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

SCHEDULE OF INSTANT GAME REVENUES (CONTINUED)

	Years Ended June 30,	
	2018	2017
HOLIDAY CHEER	-	(8,255)
HOLIDAY LUCKY TIMES 10	-	2,336
HOLIDAY SPARKLE	-	350
SEASON'S GOLD	-	13,570
FROSTY FUN	-	370,195
\$500,000 WINFALL	-	12,604,930
BIG MONEY SPECTACULAR	-	83,012
\$250,000 CROSSWORD	-	31,100
SUPER CROSSWORD	-	330,000
INSTANT BINGO	-	4,170,386
CROSSWORD	-	1,817,145
BINGO MULTIPLIER	-	9,546,579
5X THE CASH	-	2,086,735
RAPID REFUND	-	537,370
SPRING FLING TRIPLER	-	1,471,350
SUPER 7'S SLINGO	-	7,491,987
\$250,000 CROSSWORD	-	378,350
\$10K BLOWOUT	-	12,664,775
TIC TAC TOE	-	2,209,180
QUICK \$50S	-	5,334,449
CASH BLAST	-	9,842,859
LIFE IS GOOD	-	6,812,443
SHIMMERING 7'S	-	11,875,202
BIG MONEY SPECTACULAR	-	3,255,146
\$250,000 CROSSWORD	-	7,657,940
CROSSWORD	-	36,735,401
BIG MONEY SPECTACULAR	-	24,032,276
LOTERIA	-	16,231,077
INSTANT BINGO	-	11,588,826
POCKET CHANGE	-	3,797,420
LUCKY DAY	-	9,553,583
\$25 MAYHEM	-	5,024,385
SUPER CROSSWORD	-	27,025,065
\$250,000 CROSSWORD	-	17,784,588
HOLIDAY LUCK	-	6,336,169
HOLIDAY LUCKY TIMES 10	-	11,630,623
JINGLE BILLS	-	17,134,945
SUPER CROSSWORD	-	27,122,955
BIG MONEY SPECTACULAR	-	25,164,972
\$250,000 CROSSWORD	-	17,465,674
\$100 FRENZY	(4)	-
\$2,500 FRENZY	(40)	-
WILD DOUBLER	(77)	-
WILD CASH BONANZA	(100)	-
CROSSWORD	(108)	-
\$200,000 JACKPOT	(110)	-
WILD 10S	(124)	-
\$50 FRENZY	(185)	-
QUICK CHANGE	(198)	-

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

SCHEDULE OF INSTANT GAME REVENUES (CONTINUED)

	Years Ended June 30,	
	2018	2017
MONOPOLY MILLIONAIRES'	(205)	-
CLASSIC BINGO	(230)	-
JOKER'S WILD	(240)	-
WIN \$500 A WEEK FOR LIFE	(246)	-
SUPER CASH SPECTACULAR	(265)	-
GEM 7s	(300)	-
WIN FOR LIFE!	(300)	-
WIN \$2,500 A WEEK FOR L	(310)	-
BIG CASH SPECTACULAR	(312)	-
BINGO MULTIPLIER	(320)	-
\$250,000 CROSSWORD	(330)	-
WILD CHERRY BINGO DOUBL	(336)	-
CROSSWORD	(348)	-
CASH BLAST	(430)	-
BIG MONEY SPECTACULAR	(516)	-
SUPER CROSSWORD	(565)	-
BIG MONEY SPECTACULAR	(604)	-
SUPER CROSSWORD	(620)	-
WILD CASH	(670)	-
\$250,000 CROSSWORD	(670)	-
\$1,000,000 JACKPOT	(700)	-
\$25 MAYHEM	(737)	-
BIRTHDAY BUCKS	(818)	-
SHIMMERING 7'S	(865)	-
WORLD SERIES OF POKER	(1,075)	-
QUICK \$50S	(1,106)	-
SUPER 7'S SLINGO	(1,305)	-
\$150,000,000 CASH SPECT	(1,310)	-
SPRING FLING TRIPLER	(1,476)	-
\$10K BLOWOUT	(1,690)	-
SUPER SLOTS	(1,780)	-
INSTANT BINGO	(1,856)	-
5X THE CASH	(2,067)	-
DOUBLE DOUBLER	(2,372)	-
RAPID REFUND	(2,462)	-
PRIOR YEAR GAME	(3,600)	-
POCKET CHANGE	(5,331)	-
HOLIDAY LUCK	(8,083)	-
	<u>\$ 1,911,034,446</u>	<u>\$ 1,887,940,043</u>

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

SCHEDULE OF ADMINISTRATIVE EXPENSES

	Years Ended June 30,	
	2018	2017
Salaries	\$ 6,185,147	\$ 6,101,591
Printing & Office Supplies	91,273	92,020
Vehicular Supplies	1,077	1,020
Household & Clothing	5,670	5,648
Travel	45,244	40,851
Telephone	102,705	112,838
Postage	47,463	50,559
Data Processing	656,582	690,392
Household & Security	186,572	208,119
Professional Services	433,527	332,452
Other Professional Services	270,826	244,640
Data Processing-OIT	80,146	234,715
Maintenance - Building & Grounds	12,351	6,567
Maintenance - Office Equipment	12,641	6,880
Rent - Building & Grounds	840,845	1,080,369
Central Motor Pool	77,457	81,246
Vehicular Equipment	66,456	1,103
Other Equipment	15,758	39,473
Information Processing Equipment	1,238	20,509
Amortization	27,879	67,461
Totals	<u>\$ 9,160,858</u>	<u>\$ 9,418,452</u>

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

SCHEDULE OF NORTHSTAR NJ NET INCOME TARGETS (UNAUDITED)

<u>Year</u>	<u>Fiscal Year</u>	<u>Net Income Target</u>	
Year 1 (Stub Year)	2014	\$ 760,897,061	(Prorated)
Year 2	2015	1,047,000,000	
Year 3	2016	963,478,103	
Year 4	2017	990,513,343	
Year 5	2018	1,009,871,643	
Year 6	2019	1,023,544,636	
Year 7	2020	1,036,114,600	
Year 8	2021	1,045,300,757	
Year 9	2022	1,054,562,917	
Year 10	2023	1,063,906,791	
Year 11	2024	1,073,794,937	
Year 12	2025	1,083,757,077	
Year 13	2026	1,093,797,230	
Year 14	2027	1,103,903,546	
Year 15	2028	1,114,089,100	
Year 16	2029	1,124,348,918	

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

State of New Jersey
Department of the Treasury
Division of State Lottery

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the State of New Jersey, Division of State Lottery (the "Division of State Lottery") as of and for the year ended June 30, 2018, and the related notes to financial statements, which comprise the Division of State Lottery's basic financial statements, and have issued our report thereon dated February 14, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered the Division of State Lottery's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Division of State Lottery's internal control. Accordingly, we do not express an opinion on the effectiveness of the Division of State Lottery's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Division of State Lottery's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(CONTINUED)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Division of State Lottery's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mercadieu, P.C.

Certified Public Accountants

February 14, 2019