

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

Financial Statements
and Supplementary Information

June 30, 2019

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, Division of State Lottery (the "Division of State Lottery") for the years ended June 30, 2019 and 2018. 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 through -25. 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 New Jersey Lottery's ticket sales totaled \$3.482 billion in fiscal year 2019, the largest total ever for the New Jersey Lottery. The net proceeds to the State totaled \$1.105 billion, also the largest contribution to the State in the Lottery's history. Sales increased 5.5% from fiscal year 2018 to fiscal year 2019, and the contribution increased 7.2%, respectively. Prizes awarded to New Jersey Lottery players, the Lottery's largest expense item, totaled \$2.086 billion, and the New Jersey Lottery paid \$198 million in commissions to our network of more than 7,000 retailers.

The Division of State Lottery's financial position at June 30, 2019 and 2018, consisted of total assets of \$499 million and \$501 million, respectively, and total liabilities of \$498 million and \$500 million, respectively. A substantial portion of the asset and liability amounts for the year ended June 30, 2019, 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, 2019 and 2018, were \$235 million, respectively. Net position decreased from \$1.5 million in fiscal year 2018 to \$0.8 million for fiscal year 2019.

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:

- Scratch-Offs (Instant Games)
- Pick 3 Fireball
- Pick 4 Fireball
- Jersey Cash 5 Xtra
- Pick 6 Xtra
- Mega Millions
- Powerball
- CASH4LIFE Doubler
- Fast Play
- Quick Draw
- 5 Card Cash All In

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

INTRODUCTION (CONTINUED)

Pursuant to the Lottery Enterprise Contribution Act, L. 2017, c. 98 ("LECA"), the Lottery Enterprise was contributed to certain eligible Pension Plans for a thirty year term. The LECA furthers the viability of the State's Retirement System by authorizing the contribution of the Lottery Enterprise to the Teacher's Pension and Annuity Fund, the Public Employees' Retirement System and the Police and Firemen's Retirement Systems. Under the LECA, the Division of State Lottery's net proceeds are contributed to the eligible Pension Plans each year. Prior to enactment of the LECA, the Division of State Lottery's net proceeds were contributed to the State's General Fund and utilized to support education and State institutions. The contribution of the Lottery Enterprise helps protect more than 760,000 State employees and retirees, and substantially reduces unfunded liabilities. The LECA, which improves solvency of the pension funds through the 30-year contribution of the Lottery Enterprise, does not impact Division of State Lottery operations or personnel.

On June 20, 2013, a competitively bid 15-year contract was awarded to Northstar New Jersey, LLC ("Northstar") to provide sales and marketing services to the Division of State Lottery for the purpose of increasing lottery sales and net income ("the Northstar Contract"). The Northstar Contract expires on June 30, 2029.

Northstar is reimbursed on a pass-through basis for operational and marketing costs it incurs on behalf of the Division of State Lottery. Under the Northstar Contract, if defined net income targets for a given fiscal year are met or exceeded, Northstar earns incentive compensation. If the net income targets for a given fiscal year are not met, the incentive compensation is reduced or may be eliminated entirely, and Northstar may owe a contribution shortfall payment to the Division of State Lottery.

In May 2019, the Department of Treasury, the Division of State Lottery and Northstar agreed to Amendment 4 to the Northstar Contract. Amendment 4 revised the formula for calculating the incentive payment owed to Northstar in fiscal year 2019, and increased the net income targets that are used to calculate incentive payments in future years to Northstar, thereby creating a higher performance bar to be reached before Northstar receives an incentive payment. Although sales and net income increased in fiscal year 2019, the incentive compensation paid to Northstar in fiscal year 2019 totaled \$26.1 million, down from \$31.8 million in the prior fiscal year as a result of the Amendment.

FINANCIAL STATEMENTS

The Division of State Lottery's financial statements include statements of net position as of June 30, 2019 and 2018, statements of revenues, expenses and changes in net position for years ended June 30, 2019 and 2018, and statements of cash flows for years ended June 30, 2019 and 2018. The financial statements are prepared in accordance with the accounting principles established by the Governmental Accounting Standards Board. The basis of accounting is an accrual basis.

In fiscal year 2019 the assets and operations of the Division of State Lottery continue to be subject to provisions of LECA.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

FINANCIAL STATEMENTS (CONTINUED)

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:

	June 30,		
	2019	2018	2017
Current Assets	\$ 286	\$ 291	\$ 287
Deposit Fund Contracts	213	210	228
Total Assets	499	501	515
Current Liabilities	284	291	285
Non-Current Liabilities	214	208	228
Total Liabilities	498	499	513
Restricted Net Position	1.5	1.0	0.8
Unrestricted Net Position	(0.7)	0.5	0.8
Total Net Position	\$ 0.8	\$ 1.5	\$ 1.6

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 \$242 million and \$250 million at June 30, 2019 and 2018, 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 \$235 million as of June 30, 2019 and 2018, respectively. The Division of State Lottery has annuity investments with eleven insurance companies. The total market value of the United States Treasury securities was \$45 million and \$40 million at June 30, 2019 and 2018, respectively. The annuities due beyond fiscal years 2019 and 2018 total \$214 million and \$208 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 \$22 million and \$25 million as of June 30, 2019 and 2018, respectively.

Non-current liabilities represent annuity prize awards due beyond 2020 and also include the total due to Division of State Lottery employees for unused vacation and sick leave (compensated absences).

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

FINANCIAL STATEMENTS (CONTINUED)

Statements of Net Position (Continued)

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,		
	2019	2018	2017
Restricted (Unclaimed Prize Reserves)	\$ 1.5	\$ 1.0	\$ 0.8
Unrestricted	(0.7)	0.5	0.8
Total Net Position	<u>\$ 0.8</u>	<u>\$ 1.5</u>	<u>\$ 1.6</u>

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

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,		
	2019	2018	2017
Operating revenues			
Ticket sales	\$ 3,482	\$ 3,300	\$ 3,187
Forfeited prizes	45	52	45
Miscellaneous income	1	1	1
Total operating revenue	<u>3,528</u>	<u>3,353</u>	<u>3,233</u>
Operating expenses			
Prize expenses	2,087	1,991	1,927
Retailer commissions	198	188	182
Northstar NJ fees & expenses	47	47	43
Vendor fees	62	59	60
Administrative expense	9	9	9
Bad debt expense	0	0	1
Total operating expenses	<u>2,403</u>	<u>2,294</u>	<u>2,222</u>
Operating income	<u>1,125</u>	<u>1,059</u>	<u>1,011</u>
Non-Operating (expenses) revenue	<u>(20)</u>	<u>(29)</u>	<u>(27)</u>
Income before transfers out	<u>1,105</u>	<u>1,030</u>	<u>984</u>
Operating transfers – State contributions	<u>1,105</u>	<u>1,030</u>	<u>994</u>
(Decrease) increase in net position	<u>\$ (0.7)</u>	<u>\$ 0</u>	<u>\$ (10)</u>

Total Lottery tickets sales for fiscal years 2019 and 2018 were \$3.482 billion and \$3.300 billion, an increase of 5.5% and 3.5%. The New Jersey Lottery's product offerings are divided into two major categories, scratch-offs (or instant games) and draw games. Sales of scratch-offs totaled \$1.93 billion during fiscal year 2019, an increase of 1.0% from \$1.91 billion in fiscal year 2018. Sales of scratch-offs totaled \$1.91 billion during fiscal year 2018, an increase of 1.2% from \$1.89 billion in fiscal year 2017. Draw games include a wide spectrum of games, including our classic New Jersey only games such as Pick 3, Pick 4, and Pick 6, and the multi-state jackpot games Powerball and Mega Millions. In fiscal year 2019, draw game sales totaled \$1.61 billion compared to \$1.44 billion in fiscal year 2018. The increase in draw game sales was driven by the performance of Powerball and Mega Millions, which both saw several very large jackpots during the year, including a record \$1.53 billion Mega Millions jackpot awarded in October 2018.

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 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. As a result of various sales initiatives, game enhancements and efficient operations, the Division of State Lottery contributed \$1.105 billion (32% of net revenues) in fiscal year 2019 and \$1.030 billion (31% of net revenues) in fiscal year 2018.

The Division of State Lottery's largest expense consists of prizes awarded to players. The Division of State Lottery awarded approximately \$2.086 billion in prizes in fiscal year 2019 and approximately \$1.991 billion in fiscal year 2018. The Division of Lottery's second largest expense is retailer commissions. Retailers are paid a commission of 5% on all Lottery sales, and also earn a commission for cashing winnings. The Division of Lottery returned \$198 million and \$188 million to our network of more than 7,000 retailers in fiscal years 2019 and 2018, respectively. Both prize expense and retailer commissions are functions of total sales, and as sales increase, those expenses also increase.

The Division of State Lottery's administrative expenses for the fiscal years 2019 and 2018 were \$9 million respectively, for each year. These administrative expenses include salaries, auditing services, rent, security, data processing services, office supplies and fees to the Attorney General. The Northstar Contract has shifted advertising and other expenses from the Division of State Lottery to Northstar. The Division of State Lottery retained several core functions of operating the lottery following execution of the contract with Northstar. The Division of State Lottery remains responsible for the following operations: finance; payment of prizes and claims, security; licensing; and drawings.

Northstar is the sales and marketing vendor for the Division of State Lottery. Northstar is responsible for providing critical services to the Division of State Lottery, including the production, warehousing, distribution and accounting for all lottery tickets. Northstar fees and expenses totaled \$47 million and \$46 million in fiscal years 2019 and 2018, respectively, and included \$20 million in fees and operating expenses attributable to the cost of operating the Division of State Lottery's sales and marketing function, such as employee salaries, rent, and vehicle costs for fiscal years 2019 and 2018, respectively. The Northstar fees and expenses do not include incentive compensation paid to Northstar, as explained below. The Northstar fees and expenses also included \$27 million and \$26 million for advertising and marketing costs for fiscal years 2019 and 2018, respectively, which are paid by Northstar on a pass-through basis to other vendors. The advertising and marketing costs include, for example, the cost of broadcasting drawings on television, purchasing advertising time on television and radio, production costs for the advertisements, billboards, and point of sale materials, such as posters and counter displays.

Vendor fees are comprised of two categories: scratch-offs printing costs and fees for the gaming system. Northstar has subcontracts with various vendors for the gaming system and the production of scratch-offs. Northstar invoices the Division of State Lottery for the costs associated with those vendors and services to the Division of State Lottery on a pass-through basis

Scratch-Offs printing costs are calculated primarily on the value of scratch-offs tickets sold. There may be additional costs for individual scratch-offs games, such as licensing fees or special features of an actual ticket. Scratch-Offs printing fees totaled \$24 million and \$23 million in fiscal years 2019 and 2018, respectively. Gaming system costs relate to the costs of operating and maintaining the entire gaming system and include most hardware costs, such as servers, retailer terminals and self-service

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)

machines. Gaming system fees are calculated based on the Division of State Lottery's total sales for the fiscal year and totaled \$37 million and \$35 million in fiscal years 2019 and 2018, respectively.

Incentive compensation paid to Northstar is classified as a non-operating expense. Northstar is paid incentive compensation if the Division of State Lottery achieves certain net income targets during the fiscal year. Northstar'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. Furthermore, in the event that actual net income is significantly below the contracted net income target, then contribution shortfall payment provisions in the Northstar Contract are invoked.

The line item for Non-Operating expenses totals for the fiscal years 2019 and 2018, were \$20 million and \$28.6 million, respectively. This figure includes incentive payment to Northstar in the amount of \$26.1 million and \$31.9 million, respectively, and non operating revenue in the amount of \$5.9 million and \$3.3 million, respectively. The non-operating revenue is primarily interest earnings.

On May 3, 2019, the Division of State Lottery amended the service agreement with Northstar. Amendment 4 revised the formula for calculating the incentive payment owed to Northstar in fiscal year 2019, and increased the performance targets that are used to calculate any incentive payment to Northstar for the remaining 10 years of the Northstar Contract, thereby creating a higher performance bar to be reached before Northstar receives an incentive payment. This amendment accounts for the increased sales generated by newer games such as Quick Draw. It is anticipated that the increased performance targets will save the Division of State Lottery approximately \$100 million over the remaining life of the Northstar Contract.

Pursuant to Amendment 4, the incentive compensation for fiscal year 2019 was calculated based on the older performance targets set in Amendment 2 to the Northstar Contract. Northstar's net income target for the fiscal year 2019 set in Amendment 2 was \$1,023,544,636.

The incentive compensation due to Northstar was calculated in accordance with Amendment 2 and the amount was then reduced by 20%, and then reduced by an additional \$1,000,000 (the additional \$1 million was intended to resolve a disagreement over manager expense issues). Based on the calculation, Northstar was paid incentive compensation of \$26,132,290 in fiscal year 2019. Without Amendment 4, the incentive compensation due to Northstar would have been \$33.9 million.

The calculation of incentive compensation is set forth in the table below and is primarily based on Schedule 10.2 of the Northstar Contract, Amendment 2 and Amendment 4 to the Northstar Contract. First, Amendment 2 set a net income target for fiscal year 2019 of \$1,023,544,636. The actual amount of net income earned in 2019 was \$1,130,512,084, which exceeded the net income target.

Second, the actual incentive compensation earned is based on net income targets set within two bands. Under the Base Level Income band, Northstar is entitled to receive 5% of that portion of net income that exceeds the Base Level Income for that year, but is equal to or less than the Middle Level Income. Under the Middle Level Income Band, Northstar is entitled to receive 20% of that portion of Net Income that exceeds the Middle Level Income for that year.

Under the initial calculation, Northstar was entitled to \$43,883,017 in incentive compensation. However, the Northstar Contract establishes top and bottom caps on Northstar's incentive compensation, and total incentive compensation to Northstar cannot exceed 3% of operating income for the entire contract year. The 3% cap was utilized in fiscal year 2018, and in fiscal year 2019, the

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)

top cap had to be utilized again, reducing the incentive payment by \$9,967,654 to \$33,915,363. That amount was then further reduced pursuant to Amendment 4 by 20%, plus \$1,000,000, resulting in a final incentive payment due to Northstar in the amount of \$26,132,290. The calculation is outlined in the table below.

INCENTIVE PAYMENTS BANDS	FY 2019
Above Base Level, Below Middle Level	5.0%
Above Middle Level, Below Upper Level	20.0%
Operating Income Levels	
Base Level Income	\$ 835,668,000
Middle Level Income	936,240,000
Lottery Management Agreement NET INCOME	1,130,512,084
Incentive Payments	
Above Base, Below Middle	5,028,600
Above Middle, Below Upper	<u>38,854,417</u>
Sub Total Incentive Payments	<u>\$43,883,017</u>
High Cap (Actual Net Income X 3%)	<u>\$33,915,363</u>
Total Incentive Payments Pre Amendment	<u>\$33,915,363</u>
20% Reduction Required by Amendment	<u>\$6,783,073</u>
Further \$1 million Reduction Required by Amendment	<u>\$1,000,000</u>
Post Amendment Incentive	<u>\$26,132,290</u>

For comparison purposes, in fiscal year 2018, the Division of State Lottery paid \$31.8 million to Northstar in incentive compensation. In fiscal year 2019, the incentive compensation paid to Northstar dropped to \$26.1 million, even as sales increased from \$3,299,702,751 to \$3,482,346,197.

Statements of Cash Flows

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

	Years Ended June 30,		
	2019	2018	2017
Cash flows provided by operating activities	\$ 1,117	\$ 1,064	\$ 993
Cash flows used in non-capital financing activities	(1,100)	(1,037)	(964)
Cash flows (used in) provided by investing activities	(17)	(34)	(22)
Net increase (decrease) in cash	<u>\$ 0</u>	<u>\$ (7)</u>	<u>\$ 7</u>

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, 2019 and 2018, 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, 2019 and 2018, 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, as listed in the table of contents, 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 audits were 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, scratch-offs (instant games) 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, scratch-offs (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 January 21, 2020, 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

January 21, 2020

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

STATEMENTS OF NET POSITION

	June 30,	
	2019	2018
ASSETS		
<u>Current Assets:</u>		
Cash	\$ 114,857	\$ 199,968
Accounts receivable, net of allowance for doubtful accounts of \$2,725,260 and \$2,522,995 in 2019 and 2018, respectively	20,466,302	14,634,218
Deferred Expenses	1,325,054	1,508,421
Investments:		
Deposit Fund Contracts	21,882,704	24,682,106
State of New Jersey Cash Management Fund	241,778,399	250,280,682
Total current assets	<u>285,567,316</u>	<u>291,305,395</u>
<u>Non Current Assets:</u>		
Investments - deposit fund contracts	213,186,263	209,860,703
Total non-current assets	<u>213,186,263</u>	<u>209,860,703</u>
Total assets	<u>\$ 498,753,579</u>	<u>\$ 501,166,098</u>
LIABILITIES		
<u>Current Liabilities:</u>		
Accounts payable and accrued expenses	\$ 80,548,974	\$ 85,840,737
Obligation for unpaid prize awards	50,757,993	54,917,184
Installment prize awards	21,882,704	24,682,106
Due To State of New Jersey	131,000,000	126,296,012
Total current liabilities	<u>284,189,671</u>	<u>291,736,039</u>
<u>Non Current Liabilities:</u>		
Compensated absences	542,326	588,831
Installment prize awards	213,186,263	207,385,703
Total non current liabilities	<u>213,728,589</u>	<u>207,974,534</u>
Total Liabilities	<u>497,918,260</u>	<u>499,710,573</u>
NET POSITION		
Restricted for prize awards or contributions	1,553,422	1,000,000
Unrestricted	(718,103)	455,525
Total Net Position	<u>\$ 835,319</u>	<u>\$ 1,455,525</u>

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Years ended June 30,	
	2019	2018
Operating revenues		
Ticket Sales		
Pick 3 Fireball	\$ 410,568,704	\$ 421,314,899
Pick 4 Fireball	259,073,849	267,152,439
Jersey Cash 5 Xtra	156,476,536	154,151,709
Pick 6 Xtra	76,794,918	63,388,757
CASH4LIFE Doubler	37,053,102	41,619,762
Mega Millions	285,337,321	180,357,218
Powerball	236,347,614	231,872,739
Quick Draw	129,669,141	53,293,153
Fast Play	22,787,910	29,365,352
5 Card Cash All In	3,879,377	5,521,419
Scratch-Offs (Instant Games)	1,930,525,773	1,911,034,446
Sales Discounts/Tickets Provided as Prizes	(66,168,048)	(59,369,142)
Total Ticket Sales	<u>3,482,346,197</u>	<u>3,299,702,751</u>
Other revenues		
Forfeited Prizes	44,474,662	52,361,976
Miscellaneous	912,315	1,333,000
Total operating revenues	<u>3,527,733,174</u>	<u>3,353,397,727</u>
Operating expenses		
Prize expenses	2,086,629,181	1,991,568,091
Retailer commissions	198,540,397	188,372,918
Instant ticket vendor printing fees	24,149,110	23,544,946
Gaming system vendor fees	37,259,452	35,280,003
Northstar NJ management fee	5,272,479	5,163,528
Northstar NJ manager expenses	14,473,760	14,529,015
Northstar NJ advertising & marketing expenses	26,862,806	26,580,770
Administration expenses	9,027,964	9,160,858
Multi-State fees	69,828	50,569
Drawing broadcast fees	428,800	428,583
Bad debt expense	414,647	-
Total Operating Expenses	<u>2,403,128,424</u>	<u>2,294,679,281</u>
Operating Income	<u>1,124,604,750</u>	<u>1,058,718,446</u>
Non-operating revenue	5,907,333	3,265,058
Income Before Transfers	<u>1,130,512,084</u>	<u>1,061,983,504</u>
Northstar NJ incentive payment	(26,132,290)	(31,859,505)
Income available for Transfer	<u>1,104,379,794</u>	<u>1,030,123,999</u>
Transfers out -		
Contributions to Pensions	1,105,000,000	976,000,000
Contributions to Treasury	-	54,296,012
Changes in net position	<u>(620,206)</u>	<u>(172,013)</u>
Net position, beginning of year	1,455,526	1,627,539
Net position - end of year	<u>\$ 835,319</u>	<u>\$ 1,455,526</u>

See notes to financial statements.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

STATEMENTS OF CASH FLOWS

	Years ended June 30,	
	2019	2018
Cash Flows from Operating Activities		
Sales to customers	\$ 1,682,615,458	\$ 1,536,810,650
Payments for prize awards	(477,439,868)	(376,793,931)
Payments for vendor commissions and fees	(78,765,791)	(88,337,283)
Payments to suppliers	(9,636,999)	(10,413,143)
Other payments	(331,988)	(9,037,053)
Cash flows from annuity operations		
Annuity receipts	24,093,704	23,899,204
Purchases of annuities	(6,202,956)	(3,359,686)
Payments of annuity prizes	(16,637,661)	(8,494,136)
Net cash provided by operating activities	<u>1,117,693,898</u>	<u>1,064,274,622</u>
Cash Flows used in Non-Capital Financing Activities		
Contributions to State	<u>(1,100,296,012)</u>	<u>(1,037,000,000)</u>
Cash Flows from Investment Activities		
Cash Management Fund proceeds	1,752,410,343	1,885,953,096
Cash Management Fund purchases	(1,738,033,835)	(1,891,271,109)
Payments to Northstar NJ	(31,859,505)	(28,961,387)
Net cash used by investment activities	<u>(17,482,997)</u>	<u>(34,279,400)</u>
Net decrease in cash	(85,111)	(7,004,778)
Cash, beginning of year	199,968	7,204,746
Cash, end of year	<u>\$ 114,857</u>	<u>\$ 199,968</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating Income	\$ 1,124,604,750	\$ 1,058,718,446
Changes in assets and liabilities		
Accounts receivable	(5,832,084)	(6,037,814)
Investments - deposit fund contracts	(526,158)	21,845,995
Other assets	183,367	195,575
Accounts payable and accrued expenses	468,560	29,383,752
Obligation for unpaid prize awards	(1,158,033)	(39,748,683)
Compensating absences	(46,505)	(82,648)
Net cash provided by operating activities	<u>\$ 1,117,693,898</u>	<u>\$ 1,064,274,622</u>

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 Enterprise Contribution 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 reorganize 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 contribution to pensions 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 scratch-off (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", "Powerball", "CASH4LIFE Doubler", "Quick Draw" and "5 Card Cash All In" games on the drawing date.
- Scratch-Offs (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 scratch-offs (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 state 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.

Consistent with the Lottery Enterprise Contribution Act (Chapter 98 of the Public Law of 2017), which transferred the Lottery and its resulting net revenues to the newly established Pension Fund L, all previously existing assets and liabilities were not part of the transfer and remained with the Lottery Residual Fund. Thus, all unclaimed prizes resulting from lottery sales prior to the transfer date established in the Lottery Enterprise Contribution Act (July 1, 2017), are assets of the Lottery Residual Fund.

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 pensions 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 scratch-offs (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, 2019 and 2018. The Division of State Lottery's deposits with Wells Fargo are insured by the Federal Deposit Insurance Corporation up to \$250,000.

	June 30,	
	2019	2018
Wells Fargo	\$ 114,607	\$ 199,717
Total	\$ 114,607	\$ 199,717

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, 2019 and 2018:

	June 30, 2019			
	Total	Level 1	Level 2	Level 3
Annuity Investment Deposit				
Fund Contracts	\$ 235,068,967	\$ 45,171,524	\$ -	\$ 189,897,443
New Jersey Cash Management Fund	241,778,399	-	241,778,399	-
Total	<u>\$ 476,847,366</u>	<u>\$ 45,171,524</u>	<u>\$ 241,778,399</u>	<u>\$ 189,897,443</u>
	June 30, 2018			
	Total	Level 1	Level 2	Level 3
Annuity Investment Deposit				
Fund Contracts	\$ 234,542,809	\$ 39,622,971	\$ -	\$ 194,919,838
New Jersey Cash Management Fund	250,280,682	-	250,280,682	-
Total	<u>\$ 484,823,491</u>	<u>\$ 39,622,971</u>	<u>\$ 250,280,682</u>	<u>\$ 194,919,838</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 scratch-offs (instant games). U.S. government securities fund term annuity prizes for games such as Pick 6 Xtra, Mega Millions, Powerball and Scratch-Offs (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, 2019 and 2018, Delaware Life had annuity contracts totaling approximately \$19,611,731 and \$19,931,178, 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, 2019 and 2018, the Division of State Lottery held insurance company annuity contracts totaling \$189,897,443 and \$194,919,838, 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, 2019 and 2018.

U.S. government securities are carried at fair value. At June 30, 2019 and 2018, the Division of State Lottery had \$45,171,524 and \$39,622,971, 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, 2019 and 2018, 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 scratch-offs (instant games) tickets 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. On May 3, 2019, the Division of State Lottery amended the service agreement with Northstar. Amendment 4 revised

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS

E. COMMITMENTS (CONTINUED)

Contractual Arrangements (Continued)

the formula for calculating the incentive payment owed to Northstar in fiscal year 2019, and increased the performance targets that are used to calculate any incentive payment to Northstar for the remaining 10 years of the Northstar Contract, thereby creating a higher performance bar to be reached before Northstar receives an incentive payment. If NSNJ meets or exceeds the net income target for a given Fiscal Year, they can earn an incentive pay or 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 2019 and 2018, NSNJ met its amended contractual net income target resulting in an incentive contribution due to NSNJ of \$26,132,290 and \$31,859,505, 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 \$46,609,045 and \$46,273,313 for the years ended June 30, 2019 and 2018, 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:

Years Ending June 30,	Amount
2020	\$ 655,750
2021	655,750
2022	655,750
2023	655,750
2024	273,229
	<u>\$ 2,896,229</u>

Rent expense for office facilities and equipment for the years ended June 30, 2019 and 2018, was \$844,785 and \$840,845, 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 New Jersey 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, 2019, 2018, 2017 and 2016, was \$5,112,937, \$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, 2019, 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.

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, 2019

	Budget (unaudited)	Actual	Variance (unfavorable) favorable
Operating revenues			
Ticket Sales			
Pick 3 Fireball	\$ 421,500,000	\$ 410,568,704	\$ (10,931,296)
Pick 4 Fireball	268,500,000	259,073,849	(9,426,151)
Jersey Cash 5 XTRA	167,500,000	156,476,536	(11,023,464)
Pick 6 XTRA	62,000,000	76,794,918	14,794,918
CASH4LIFE Doubler	42,000,000	37,053,102	(4,946,898)
Mega Millions	201,000,000	285,337,321	84,337,321
Powerball	218,000,000	236,347,614	18,347,614
Quick Draw	136,079,600	129,669,141	(6,410,459)
Fast Play	30,000,000	22,787,910	(7,212,090)
5 Card Cash All In	6,750,000	3,879,377	(2,870,623)
Scratch-Offs (Instant Games)	1,925,685,000	1,930,525,773	4,840,773
Sales Discounts/Tickets Provided as Prizes	<u>(55,000,000)</u>	<u>(66,168,048)</u>	<u>(11,168,048)</u>
Total Ticket Sales	3,424,014,600	3,482,346,197	58,331,597
Other revenues			
Forfeited Prizes	46,500,000	44,474,662	(2,025,338)
Miscellaneous	<u>1,500,000</u>	<u>912,315</u>	<u>(587,685)</u>
Total operating revenues	<u>3,472,014,600</u>	<u>3,527,733,174</u>	<u>55,718,574</u>
Operating expenses			
Prize expenses	2,084,253,800	2,086,629,181	(2,375,381)
Retailer commissions	193,781,113	198,540,397	(4,759,284)
Instant ticket vendor printing fees	23,416,330	24,149,110	(732,780)
Gaming system vendor fees	36,529,653	37,259,452	(729,799)
Northstar NJ management fee	5,270,000	5,272,479	(2,479)
Northstar NJ manager expenses	16,867,500	14,473,760	2,393,740
Northstar NJ advertising & marketing expenses	27,371,000	26,862,806	508,194
Administration expenses	13,271,000	9,027,964	4,243,036
Multi-State fees	150,000	69,828	80,172
Drawing broadcast fees	250,000	428,800	(178,800)
Bad debt expense	600,000	414,647	185,353
Instant Enhancement/License Fees	<u>1,200,000</u>	<u>-</u>	<u>1,200,000</u>
Total Operating Expenses	<u>2,402,960,396</u>	<u>2,403,128,424</u>	<u>(168,028)</u>
Operating Income	1,069,054,204	1,124,604,750	55,550,546
Non-operating revenue	<u>200,000</u>	<u>5,907,333</u>	<u>5,707,333</u>
Income Before Transfers	1,069,254,204	1,130,512,084	61,257,880
Northstar NJ incentive payment	<u>(32,077,626)</u>	<u>(26,132,290)</u>	<u>5,945,336</u>
Income available for Transfer	1,037,176,578	1,104,379,794	67,203,216
Transfers out:			
Contributions to Pensions	1,037,176,578	1,105,000,000	(67,823,422)
Contributions to Treasury	<u>-</u>	<u>-</u>	<u>-</u>
Change in net position	<u>-</u>	<u>(620,206)</u>	<u>(620,206)</u>
Net position, beginning of year	1,626,011	1,455,526	(170,485)
Net position - end of year	<u>\$ 1,626,011</u>	<u>\$ 835,319</u>	<u>\$ (790,692)</u>

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

SCHEDULE OF NET POSITION

	As of June 30, 2019			
	Treasury	Pension Fund L	Elimination Entries	Total
ASSETS				
<u>Current Assets:</u>				
Cash	\$ -	\$ 114,857	\$ -	\$ 114,857
Accounts receivable, net of allowance for doubtful accounts of \$2,725,260 and \$2,522,995 in 2019 and 2018, respectively	136,676	20,329,625	-	20,466,302
Deferred Expenses	1,367,470	(42,416)	-	1,325,054
Interfunds Receivable	-	430,616	(430,616)	-
Investments:				-
Deposit Fund Contracts	21,342,704	540,000	-	21,882,704
State of New Jersey Cash Management Fund	-	241,778,399	-	241,778,399
Total current assets	<u>22,846,850</u>	<u>263,151,082</u>	<u>(430,616)</u>	<u>285,567,316</u>
<u>Non Current Assets:</u>				
Investments - deposit fund contracts	<u>202,215,243</u>	<u>10,971,020</u>	<u>-</u>	<u>213,186,263</u>
Total non-current assets	<u>202,215,243</u>	<u>10,971,020</u>	<u>-</u>	<u>213,186,263</u>
Total Assets	<u>\$ 225,062,093</u>	<u>\$ 274,122,102</u>	<u>\$ (430,616)</u>	<u>\$ 498,753,579</u>
LIABILITIES				
<u>Current Liabilities:</u>				
Accounts payable and accrued expenses	\$ 1,588,929	\$ 78,960,045	\$ -	\$ 80,548,974
Obligation for unpaid prize awards	-	50,757,993	-	50,757,993
Installment prize awards	21,342,704	540,000	-	21,882,704
Interfunds Payable	430,616	-	(430,616)	-
Due To State Of New Jersey - Treasury Out	-	131,000,000	-	131,000,000
Total current liabilities	<u>23,362,249</u>	<u>261,258,038</u>	<u>(430,616)</u>	<u>284,189,671</u>
<u>Non Current Liabilities:</u>				
Compensated absences	-	542,326	-	542,326
Installment prize awards	<u>202,215,243</u>	<u>10,971,020</u>	<u>-</u>	<u>213,186,263</u>
Total non current liabilities	<u>202,215,243</u>	<u>11,513,346</u>	<u>-</u>	<u>213,728,589</u>
Total Liabilities	<u>225,577,492</u>	<u>272,771,384</u>	<u>(430,616)</u>	<u>497,918,260</u>
NET POSITION				
Restricted for prize awards or contributions to State	500,000	1,053,422	-	1,553,422
Unrestricted	(584,783)	(133,320)	-	(718,103)
Total Net Position	<u>\$ (84,783)</u>	<u>\$ 920,102</u>	<u>\$ -</u>	<u>\$ 835,319</u>

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Year ended June 30, 2019		
	Treasury	Pension Fund L	Total
Operating revenues			
Ticket Sales			
Pick 3 Fireball	\$ -	\$ 410,568,704	\$ 410,568,704
Pick 4 Fireball	-	259,073,849	259,073,849
Jersey Cash 5 Xtra	-	156,476,536	156,476,536
Pick 6 Xtra	-	76,794,918	76,794,918
Cash 4 Life Doubler	-	37,053,102	37,053,102
Mega Millions	-	285,337,321	285,337,321
Powerball	-	236,347,614	236,347,614
Quick Draw	-	129,669,141	129,669,141
Fastplay	-	22,787,910	22,787,910
5 Card Cash All In	-	3,879,377	3,879,377
Scratch-Off (Instant Games)	-	1,930,525,773	1,930,525,773
Sales Discounts	-	(66,168,048)	(66,168,048)
Total Ticket Sales	-	3,482,346,197	3,482,346,197
Other revenues			
Forfeited Prizes	-	44,474,662	44,474,662
Miscellaneous	245	912,070	912,315
Total operating revenues	245	3,527,732,929	3,527,733,174
Operating expenses			
Prize expenses	-	2,086,629,181	2,086,629,181
Retailer commissions	57,149	198,483,248	198,540,397
Instant ticket vendor printing fees	-	24,149,110	24,149,110
Gaming system vendor fees	-	37,259,452	37,259,452
Northstar NJ management fee	-	5,272,479	5,272,479
Northstar NJ manager expenses	-	14,473,760	14,473,760
Northstar NJ advertising & marketing expenses	-	26,862,806	26,862,806
Administration expenses	27,879	9,000,085	9,027,964
Multi-State fees	-	69,828	69,828
Drawing broadcast fees	-	428,800	428,800
Bad debt expense	-	414,647	414,647
Total Operating expenses	85,028	2,403,043,396	2,403,128,424
Operating Income	(84,783)	1,124,689,533	1,124,604,750
Non-operating revenue			
Interest	-	5,907,333	5,907,333
(Loss) income before transfers out	(84,783)	1,130,596,867	1,130,512,084
Northstar NJ incentive payment	-	(26,132,290)	(26,132,290)
(Loss) income available for transfer	(84,783)	1,104,464,577	1,104,379,794
Transfers out			
Contributions to Pensions	-	1,105,000,000	1,105,000,000
Contributions to Treasury	-	-	-
Total transfers out	-	1,105,000,000	1,105,000,000
Changes in net position	(84,783)	(535,424)	(620,205)
Net position, beginning of year	-	1,455,525	1,455,525
Net position - end of year	\$ (84,783)	\$ 920,102	\$ 835,319

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

SCHEDULES OF SCRATCH-OFFS (INSTANT GAMES) REVENUES

	Years ended June 30,	
	2019	2018
\$5,000,000 LUCKY 7s	\$ 188,078,180	\$ 36,050,100
\$200 MILLION CASH BONANZA	82,873,710	142,471,520
\$2,000,000 LUCKY 7S	72,777,420	-
\$3,000,000 CASH OUT	62,448,170	-
\$1,000,000 LUCKY 7S	56,871,086	-
DAZZLING DIAMOND SPECTACULAR	55,036,835	33,914,940
\$1,000,000 SPECTACULAR	52,422,500	-
\$90,000,000 PLATINUM PAYOUT	44,100,460	-
CROSSWORD	41,353,515	-
CROSSWORD	39,667,952	1,861,026
MILLION DOLLAR MULTIPLIER	38,782,290	9,024,880
MEGA CROSSWORD	37,529,080	5,688,760
INSTANT CASH MILLIONAIRE	36,991,480	44,914,900
\$52,000,000 GOLD PAYOUT	30,230,770	-
\$200,000 LUCKY 7S	29,660,530	-
CASH BLAST	28,781,094	-
HOT RICHES	28,709,090	1,800
SUPER CROSSWORD	26,956,930	-
SUPER CROSSWORD	26,735,291	-
\$500 FRENZY	25,725,617	-
WIN FOR LIFE	25,474,707	7,237,209
MEGA CROSSWORD	25,085,140	-
BIG MONEY SPECTACULAR	24,633,559	-
\$1,000,000 SPECTACULAR	24,333,656	50,626,750
BIG MONEY SPECTACULAR	24,302,786	-
\$150K POKER RICHES	23,721,722	-
SUPER CROSSWORD	22,980,113	3,837,370
\$5,000,000 FORTUNE	21,360,596	151,783,440
BIG MONEY SPECTACULAR	20,992,148	3,665,224
50X THE BUCKS	20,602,644	50,846,812
MONEY MATCH	20,135,875	-
LUCKY TIMES 50	19,933,330	-
LADY LUCK BONUS	19,648,775	2,100
BINGO TIMES 10	19,141,847	-
\$500 FRENZY	18,779,135	-
100 X THE BUCKS	17,973,210	94,603,614
\$250,000 CROSSWORD	17,614,969	-
\$250,000 CROSSWORD	17,568,196	-
\$18,000,000 SILVER PAYOUT	17,365,260	-
\$250,000 CROSSWORD	17,233,601	-
HIGH CARD POKER	16,725,518	15,659,735
SUPER TIC TAC TOE	16,612,787	600
HOLIDAY BUCKS	16,547,948	-
WILD TIME MULTIPLIER	16,305,305	4,329,120
LOTERIA	15,940,527	-
\$250,000 CROSSWORD (T)	15,380,510	-
JERSEY CASH BLOWOUT	15,330,022	14,802,190
SUPER CROSSWORD	15,125,730	-

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

SCHEDULES OF SCRATCH-OFFS (INSTANT GAMES) REVENUES (CONTINUED)

	Years ended June 30,	
	2019	2018
\$1,000,000 GOLD RUSH	15,051,520	23,516,130
BINGO BONUS SQUARE	14,465,565	-
BINGO PLUS	14,305,709	-
DIAMONDS AND DOLLARS	13,991,419	-
\$20,000 LUCKY 7S	13,666,558	-
CROSSWORD (CC)	13,303,251	-
HOLIDAY LUCKY TIMES 10	13,076,012	-
WIN FOR LIFE	12,809,650	-
\$250,000 CROSSWORD	12,648,453	4,996,030
SUPER MONEY MULTIPLIER	11,495,360	-
LOTERIA	11,209,111	4,616,541
MONEY MULTIPLIER	10,800,998	-
LUCKY TIMES 20	10,374,495	19,072,310
RUBY RED RICHES	10,053,195	7,833,875
QUICK \$50s	9,439,486	-
\$8,000,000 COPPER PAYOUT	9,343,886	-
MONEY ROLL	8,925,661	-
\$200,000 GOLD RUSH	8,892,595	16,909,185
FAST CASH	8,590,786	-
\$10,000 BONUS	8,488,220	24,626,946
BIG MONEY SPECTACULAR	8,432,938	-
SUMMER LUCKY TIMES 10	7,488,546	2,477,796
LUCKY TIMES 20	6,774,670	-
THE VOICE	6,764,892	-
LOOSE CHANGE	6,422,689	-
LOOSE CHANGE (D)	6,283,508	-
LOOSE CHANGE	6,082,240	-
MONEY ROLL	5,880,874	-
BLACKOUT BINGO	5,439,343	9,572,032
DOUBLE DOLLAR BINGO	5,310,594	-
PINK DIAMOND BINGO	5,113,150	17,202,230
7 (THEME)	5,063,130	-
CASH BLAST	4,942,980	-
HOLIDAY LOOSE CHANGE	4,814,663	-
BIRTHDAY SURPRISE	4,682,844	-
LOTERIA (H)	4,580,745	-
INSTANT BINGO	4,496,553	6,731,005
DOUBLE MATCH	4,245,804	-
FAST MONEY	4,212,007	-
DOUBLE WIN	4,004,020	13,435,943
LOOSE CHANGE	3,911,465	1,032,965
\$20,000 GOLD RUSH	3,429,840	9,817,676
PLATINUM DIAMOND SPECTACULAR	2,199,440	51,237,150
BIRTHDAY SURPRISE	2,147,408	4,665,541
CROSSWORD	2,051,417	39,335,313
SUMMER LUCKY TIMES 10	1,962,968	-
BACKSTAGE PASS TO CASH	1,933,914	4,777,020
FAST MONEY	1,758,880	7,182,194

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

SCHEDULES OF SCRATCH-OFFS (INSTANT GAMES) REVENUES (CONTINUED)

	Years ended June 30,	
	2019	2018
CASH BASH	1,664,030	27,170,560
LOOSE CHANGE (G)	1,542,638	-
7	1,516,935	23,429,260
SUPER CROSSWORD	1,447,640	25,161,421
BIG MONEY SPECTACULAR	1,410,696	23,136,117
\$250,000 CROSSWORD	1,303,200	-
MONEY VAULT	1,240,574	7,088,488
DIAMONDS AND DOLLARS	1,205,810	24,482,162
\$250,000 CROSSWORD	1,053,680	16,123,004
MEGA CROSSWORD	917,820	42,120,718
\$500,000 RICHES	843,970	27,010,334
LOOSE CHANGE	750,201	4,187,530
SUPER CASINO	733,026	23,059,270
\$500 FRENZY	302,940	25,981,125
WIN FOR LIFE	188,103	28,188,043
10X THE BUCKS	82,510	14,141,082
20X THE BUCKS	82,065	29,894,520
LOVE TO WIN DOUBLER	79,728	7,542,053
\$250,000 CROSSWORD	71,810	17,711,960
LOOSE CHANGE	49,505	4,797,499
BIG MONEY SPECTACULAR	29,262	25,005,588
CASH IN A FLASH	15,700	17,814,160
200X THE MONEY BONUS	15,000	-
\$1,000,000 MAYHEM	11,560	32,952,825
INSTANT BINGO	9,390	11,128,457
LOTERIA (D)	8,007	15,252,828
SUPER TRIPLE 777	7,500	-
\$150,000 POKER	7,055	20,816,452
HOT SPOT BINGO	4,360	19,431,900
CROSSWORD	4,146	41,762,992
HOLIDAY SPARKLE	4,122	6,217,555
SUPER CROSSWORD	3,965	26,930,220
HIT \$100!	3,778	9,335,001
HOLIDAY LUCKY TIMES 10	3,644	13,030,985
5X THE BUCKS	3,494	5,439,030
\$250,000 CROSSWORD	3,150	17,845,799
POCKET CHANGE	2,775	4,721,948
HOLIDAY SPECTACULAR	2,050	16,930,970
HIGH CARD POKER	1,500	-
EMERALD 8s	1,200	-
LOTERIA	24	925,832
HOLIDAY LUCK	-	(8,083)
POCKET CHANGE	-	(5,331)
PRIOR YEAR GAME	-	(3,600)
RAPID REFUND	-	(2,462)
DOUBLE DOUBLER	-	(2,372)
5X THE CASH	-	(2,067)
INSTANT BINGO	-	(1,856)

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

SCHEDULES OF SCRATCH-OFFS (INSTANT GAMES) REVENUES (CONTINUED)

	Years ended June 30,	
	2019	2018
SUPER SLOTS	-	(1,780)
\$10K BLOWOUT	-	(1,690)
SPRING FLING TRIPLER	-	(1,476)
\$150,000,000 CASH SPECTACULAR	-	(1,310)
SUPER 7'S SLINGO	-	(1,305)
QUICK \$50S	-	(1,106)
WORLD SERIES OF POKER	-	(1,075)
SHIMMERING 7'S	-	(865)
BIRTHDAY BUCKS	-	(818)
\$25 MAYHEM	-	(737)
\$1,000,000 JACKPOT	-	(700)
WILD CASH	-	(670)
\$250,000 CROSSWORD	-	(670)
SUPER CROSSWORD	-	(620)
BIG MONEY SPECTACULAR	-	(604)
SUPER CROSSWORD	-	(565)
BIG MONEY SPECTACULAR	-	(516)
CASH BLAST	-	(430)
CROSSWORD	-	(348)
WILD CHERRY BINGO DOUBLER	-	(336)
\$250,000 CROSSWORD	-	(330)
BINGO MULTIPLIER	-	(320)
BIG CASH SPECTACULAR	-	(312)
WIN \$2,500 A WEEK FOR LIFE	-	(310)
GEM 7s	-	(300)
WIN FOR LIFE!	-	(300)
SUPER CASH SPECTACULAR	-	(265)
WIN \$500 A WEEK FOR LIFE	-	(246)
JOKER'S WILD	-	(240)
CLASSIC BINGO	-	(230)
MONOPOLY MILLIONAIRES' CLUB	-	(205)
QUICK CHANGE	-	(198)
\$50 FRENZY	-	(185)
WILD 10S	-	(124)
\$200,000 JACKPOT	-	(110)
CROSSWORD	-	(108)
WILD CASH BONANZA	-	(100)
WILD DOUBLER	-	(77)
\$2,500 FRENZY	-	(40)
\$100 FRENZY	-	(4)
HOLIDAY LUCKY TIMES 10	-	146
TIC TAC TOE	-	288
\$5,000,000 CASH EXTRAVAGANZA	-	600
10X THE CASH	-	1,386
\$2,000,000 MEGA CASH	-	1,500
50X THE CASH	-	2,010
\$20,000 PAY DAY	-	2,100
BIG MONEY SPECTACULAR	-	3,380

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

SCHEDULES OF SCRATCH-OFFS (INSTANT GAMES) REVENUES (CONTINUED)

	Years ended June 30,	
	2019	2018
\$250,000 CROSSWORD	-	3,430
LOTERIA	-	3,939
20X THE CASH	-	5,210
LIFE IS GOOD	-	6,327
LUCKY DAY	-	7,208
\$500,000 WINFALL	-	8,100
SUPER CROSSWORD	-	8,215
JINGLE BILLS	-	9,345
INSTANT BINGO	-	15,126
100X THE CASH	-	23,720
LUCKY CASH	-	23,805
\$250,000 CROSSWORD	-	45,660
CROSSWORD	-	48,720
KISSES & CASH	-	55,349
POCKET CHANGE	-	96,539
\$100 MAYHEM	-	198,392
WIN FOR LIFE	-	348,181
\$100,000 WINNING STREAK	-	362,500
SUPER CROSSWORD	-	410,770
CASINO ROYALE	-	548,565
WHEEL OF FORTUNE	-	648,500
\$250,000 CROSSWORD	-	697,390
RED WHITE & BLUE DOUBLER	-	823,349
HIGH CARD POKER	-	1,058,630
DOUBLE DOLLARS	(1)	52,163
POCKET CHANGE	(2)	2,545,391
ALL CASH CLUB	(5)	95,165
SUPER CROSSWORD	(75)	13,041,045
INSTANT BINGO	(120)	4,161,847
BOARDWALK BUCKS	(126)	180,578
LUCKY 7s	(207)	108,927
CASH IN A FLASH	(290)	554,120
EXTRA PLAY	(305)	3,967,164
BIG MONEY SPECTACULAR	(308)	11,778,409
\$250,000 CROSSWORD	(310)	8,944,510
BANKROLL BINGO	(324)	1,789,140
\$20,000 HOLLWOOD CASH FANTASY	(450)	330,166
BIRTHDAY SURPRISE	(454)	1,824,468
\$150,000 GOLD RUSH	(480)	2,014,979
PRIOR YEAR GAME	(508)	306
POKER SHOWDOWN	(540)	2,652,115
BINGO BONUS SQUARE	(600)	1,110,985
\$5,000,000 CASH EXTRAVAGANZA	(600)	3,088,440
CROSSWORD	(600)	12,324,223
LUCKY 7s TRIPLER	(605)	5,974,363
LADY LUCK	(730)	16,108,821
CASH FLURRIES	(764)	655,371
SUPER CROSSWORD	(785)	27,025,003

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

SCHEDULES OF SCRATCH-OFFS (INSTANT GAMES) REVENUES (CONTINUED)

	Years ended June 30,	
	2019	2018
\$500 MONEY MADNESS	(840)	10,237,290
HOT STREAK	(870)	2,714,955
MONEY BAGS	(900)	1,184,206
BLACK AND GOLD	(1,070)	8,861,335
LUCKY 7s MULTIPLIER	(1,200)	13,890,780
\$10K BLOWOUT	(1,220)	7,304,130
SPRING \$50s	(1,258)	3,013,150
LUCKY 7s DOUBLER	(1,268)	1,281,791
\$500 MAYHEM	(1,280)	4,685,665
BIG MONEY SPECTACULAR	(1,506)	238,850
MEGA CROSSWORD	(1,600)	4,593,260
POWER PLAY CROSSWORD	(1,623)	17,987,310
LUCKY CATCH	(1,702)	4,458,783
DOUBLE \$\$	(1,775)	3,815,711
\$250,000 CROSSWORD	(1,800)	17,312,938
MULTIPLIER MANIA	(1,820)	14,933,040
ALL CASH CLUB	(1,965)	8,754,385
SIZZLIN HOT 7S	(2,080)	9,353,260
ALL CASH MILLIONS	(2,380)	13,691,200
DOUBLE MATCH	(3,184)	9,041,198
BIG MONEY SPECTACULAR	(3,346)	24,613,213
LIBERTY BILLS	(3,982)	6,191,653
	<u>\$ 1,930,525,773</u>	<u>\$ 1,911,034,446</u>

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

SCHEDULES OF ADMINISTRATIVE EXPENSES

	Years ended June 30,	
	2019	2018
Salaries	\$ 5,466,456	\$ 6,185,147
Printing & Office Supplies	46,824	91,273
Vehicular Supplies	646	1,077
Household & Clothing	6,743	5,670
Travel	44,038	45,244
Telephone	95,059	102,705
Postage	40,232	47,463
Data Processing	558,955	656,582
Household & Security	247,581	186,572
Professional Services	1,180,875	433,527
Other Professional Services	266,950	270,826
Data Processing-OIT	82,480	80,146
Maintenance - Building & Grounds	8,010	12,351
Maintenance - Office Equipment	4,483	12,641
Rent - Building & Grounds	844,786	840,845
Rent - Other	9,500	-
Central Motor Pool	85,897	77,457
Vehicular Equipment	-	66,456
Other Equipment	8,946	15,758
Information Processing Equipment	1,624	1,238
Amortization	27,879	27,879
Totals	<u>\$ 9,027,964</u>	<u>\$ 9,160,858</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	1,082,203,750	
Year 8	2021	1,094,774,507	
Year 9	2022	1,104,531,442	
Year 10	2023	1,114,374,966	
Year 11	2024	1,124,767,787	
Year 12	2025	1,135,239,702	
Year 13	2026	1,145,794,655	
Year 14	2027	1,156,420,946	
Year 15	2028	1,167,131,650	
Year 16	2029	1,177,921,943	

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, 2019, 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 January 21, 2020.

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

January 21, 2020