

FISCAL
YEAR

2019

ANNUAL REPORT





**New
Jersey
Lottery**

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The New Jersey Lottery is happy to present the comprehensive annual financial report for Fiscal Year 2019 (FY19), ending June 30, 2019. The New Jersey Lottery is an industry leader and one of the most successful lotteries operating in the country and across the globe.

FY19 was a record-setting year for the New Jersey Lottery. Sales were over \$3.4 billion, exceeding the previous record by \$182 million. The strong sales were driven by the highest ever Mega Millions jackpot, several huge Powerball jackpots, and the largest Pick-6 jackpot since 2004. The Lottery's FY19 contribution to the State of New Jersey was \$1.1 billion, the largest in our history. Our network of over 7,000 retailers, substantially made up of small and local businesses, earned \$198.5 million in commissions.

The Lottery awarded over \$2 billion in prizes in FY19, and New Jersey players celebrated big wins! In March, a player from Alpha in Warren County won the \$273 million Mega Millions jackpot. A family from Bayonne won the \$29.5 million Pick-6 jackpot in December, and two other players won Pick-6 jackpots last year. There were 25 second tier winners of Powerball and Mega Millions who each won \$1 million, and Scratch-Offs players collected 17 prizes in excess of \$1 million.

The New Jersey Lottery is proud to be one of the largest sources of revenue for the State of New Jersey. FY19 marks the fifth consecutive year that the Lottery's contribution to support the State's financial obligations increased.

I am pleased to share the results from FY19 with the citizens of New Jersey.


James A. Carey, Jr.
Executive Director

REMARKABLE MOMENTS IN FISCAL YEAR 2019

New Jersey Lottery launches the Scratch-Offs Division campaign, introducing a group of six fun and memorable characters who work in the fictitious Scratch-Offs Division. They promote Scratch-Offs and the Lottery in commercials as well as at live events.



September 3, 2018

Mega Millions boasts the second highest jackpot for a North American Lottery game with a jackpot of \$1.537 billion. The historic drawing produces two \$1,000,000 winners, one \$30,000 winner, and fourteen \$10,000 winners from New Jersey.



SECOND HIGHEST JACKPOT
FOR A NORTH AMERICAN LOTTERY GAME

October 23, 2018

The largest Pick-6 jackpot in over a decade worth \$29.5 million is sold in Hudson County.



December 17, 2018

October 1, 2018



The add-on BULLSEYE is introduced to Quick Draw, giving players the chance to win bigger prizes and more chances to win. On the same day, Quick Draw went network-wide and became available at the Lottery's entire network of more than 7,000 retailers.

November 26, 2018



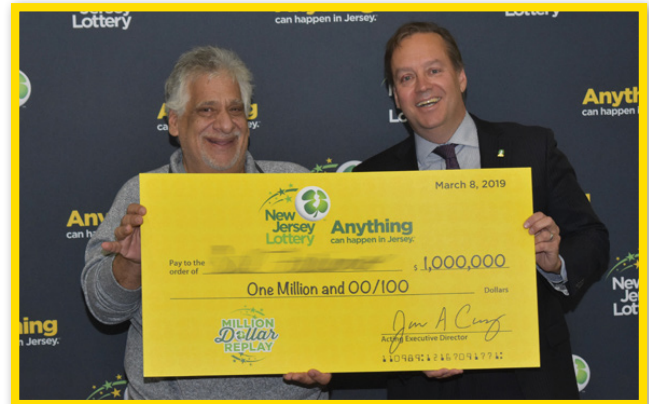
New Jersey Lottery launches the 'Joy & Prizes' campaign, a player-focused promotion with events and prizes awarded every day during the holiday season.

New Jersey's newest millionaire is announced at the Million Dollar Replay event.

Quick Draw shifts from drawings every five minutes to drawings every four minutes.



February 11, 2019



March 8, 2019

March 1, 2019



A Mega Millions ticket worth \$273,000,000 is sold in Warren County to one lucky New Jersey player.

May 9, 2019



A "lucky penny" brings good luck to the Morris County player who wins \$1,000,000 playing the Instant Cash Millionaire Scratch-Off.

WHERE THE MONEY GOES MORE THAN JUST PRIZES



Laws of 2017), to strengthen New Jersey's pension system and provide ongoing financial stability and growth potential to the State's retirement systems until 2047. Under the LECA, the Lottery's entire net proceeds are contributed to the State pension system and used to help fund the pensions of New Jersey State retirees, including teachers and police.

In Fiscal Year 2019, the Lottery contributed \$1.1 billion to the State, benefitting the citizens of New Jersey through the responsible sale of Lottery products.

New Jersey voters approved the nation's third state lottery in November 1969. Since the first New Jersey Lottery ticket was sold in 1970, over \$28 billion has been returned to the State.

The New Jersey Lottery is committed to providing revenue-generating entertainment products to help protect the retirement benefits of those who serve our communities. This includes New Jersey's teachers, police officers, firefighters, and other public employees. The Lottery accomplishes this through the responsible sale of Lottery products and a dynamic public business enterprise built upon honesty, integrity, customer satisfaction, and private partnerships.

Bipartisan legislation passed in July 2017 creating the Lottery Enterprise Contribution Act (LECA) (Chapter 98 of the Public



SHARING THE MESSAGE

SHARING THE MESSAGE

The New Jersey Lottery Speaker's Bureau program shares the Lottery's objectives with local communities to educate residents. The program provides insight into the New Jersey Lottery's operations. Citizens learn about how revenue is generated by the New Jersey Lottery and how this benefits the State.

RESPONSIBLE PLAY



The New Jersey Lottery regularly promotes messaging to emphasize the importance of responsible play because the Lottery is concerned with the health and well-being of Lottery players and non-players alike. We are committed to ensuring that players enjoy lottery games and encourage them to play responsibly.

The New Jersey Lottery is proud to have the distinct designation of being the third state lottery in the nation to be awarded Level 4 of the World Lottery Association (WLA) Responsible Gaming Framework Certification in November 2016. The WLA is one of the world's most respected industry authorities on responsible gaming programs and initiatives. The WLA's Responsible Gaming Principles and Framework is a certification program that outlines the level of commitment of lotteries to corporate social responsibility and responsible gaming. Level 4 is the highest level of achievement in Responsible Gaming awarded by the WLA.

The Lottery has a long-standing partnership with the Council on Compulsive Gambling of New Jersey, Inc. (CCGNJ) in its continuing efforts to promote public awareness of the responsible play message. Since 1999, the Lottery has maintained a position on the Council's Board of Directors and remains actively engaged in the mission to support the vital work of the Council. They hold joint press conferences that assist in building public awareness of essential issues, including the prohibition of underage gambling.

On August 6, 2018, the Lottery and the CCGNJ held a press conference at Lottery Headquarters to kick off the annual "Not 18 Yet? No Bet" Awareness Campaign. This campaign reinforces the message that the law prohibits all forms of underage gambling, including the sale of lottery tickets to minors. Additionally, in December 2018, the Lottery and the CCGNJ joined in an annual national campaign to discourage the gifting of lottery tickets to minors. In March 2019, the Council joined the Lottery to kick off the Lottery's Annual Problem Gambling Awareness Month Campaign - Awareness + Action - to educate the general public and health care professionals about the warning signs of problem gambling and to raise awareness of the help that is available both locally and nationally.

The New Jersey Lottery promotes the responsible play message on a perpetual basis. Directed toward those who may be experiencing a gambling problem or who may know someone who is, the Lottery includes the Council's toll-free helpline phone number on all Lottery Scratch-Offs and online game tickets. Further reinforcing the Council's message, the Lottery includes the 1-800-GAMBLER® hotline number on its website and in all advertising, including: television, radio, billboard signage, and social media postings. Using these delivery methods, the message is communicated to millions of players each year.

In September 2018, the Lottery's Retailer Code of Conduct was translated into Spanish. This is a policy that provides the framework for retailers to support the New Jersey Lottery's commitment to ensuring integrity, honesty, and fairness. Licensed Lottery Retailers and their employees must responsibly sell and redeem New Jersey Lottery tickets with integrity, respect, and social responsibility.

The Lottery continued to run responsible gaming advertisements throughout the year:

Some things just aren't a good fit. Lottery tickets aren't child's play. (September - October 2018)

"Tis the season to gift responsibly. Lottery tickets aren't child's play." (November - December 2018)

"Dream Big. Play Responsibly. Know Your Limits." (February - March 2019)

"Some things just aren't a good fit. Lottery tickets aren't child's play." (April - May 2019)

"Lottery Pool Rules. Tips and tricks to keep your pool cool." (June 2019)

Each ad featured the message, "If you or someone you know has a gambling problem, call 1-800-GAMBLER®," together with the "Not 18 Yet? No Bet" trademark logo of the Lottery's underage gambling prevention program. These ads are accompanied by the Lottery's standard responsible gaming messages, "Must be 18 or older to buy a lottery ticket," and "Please play responsibly."

In addition to the quarterly advertisements, in December 2018, the New Jersey Lottery produced a 15-second broadcast commercial devoted to responsible gaming messaging that aired on WPIX-11, WPHL-17, and NJTV. The commercial encourages viewers to "Dream big and play responsibly," with all standard responsible gaming messages included. This broadcast spot was also translated into Spanish to include on the Spanish New Jersey Lottery website.

That same month, the standard responsible gaming messages were added to second chance program screens on the New Jersey Lottery website, such as Million Dollar Replay and Lottery Bonus Zone. In addition, the Lottery added the responsible gaming messages to its mobile app when scanning tickets for Million Dollar Replay and Lottery Bonus Zone entries. The increased responsible gaming messaging affords additional opportunities for individuals who may have a problem gambling to be provided with the necessary information to seek help.



Must be 18 or older to buy a lottery ticket. Please play responsibly.
If you or someone you know has a gambling problem, call 1-800-GAMBLER®.



After 44 years since the game launch, Pick-3 is still the largest Draw Game in the New Jersey Lottery portfolio, with sales totaling \$410.5 million in FY19. New Jersey Pick-3 players took home \$205.9 million in prizes throughout FY19. Pick-3 contributed \$171.3 million to the State in FY19, and retailers earned \$23.0 million in commissions. In January 2019, Pick-3 was supported with an advertising campaign highlighting that the game had the most \$300 winners of all other NJ Draw Games combined! Pick-3, drawn twice daily - midday and evening - was launched as Pick-It in 1975 before being renamed in 1987.



For 42 years, Pick-4 continues to be a player favorite. Pick-4 is the bigger numbers game that launched in 1977 to complement Pick-3. Pick-4 generated \$259 million in sales in FY19, the Lottery's third highest revenue producing Draw Game. New Jersey Pick-4 players won over \$130.6 million and retailers earned \$13.9 million in commissions. Pick-4 contributed \$109.9 million to the State in FY19. Pick-4 is drawn twice daily - midday and evening.

FIREBALL

FIREBALL is an add-on that became available for Pick-3 and Pick-4 on Feb. 27, 2017 that gives players an extra chance for matching numbers with a new number drawn. The FIREBALL number can replace any one of the drawn numbers to create new winning combinations. FIREBALL gives players more chances to win big, as FIREBALL prizes are awarded in addition to the base game prizes. FIREBALL can be added to any bet type for the same cost of the base wager.



This popular match-five jackpot game was launched in 1992. Jersey Cash 5 produces more jackpot winners than any other game. In FY19, there were 146 jackpot winning tickets sold, almost three every week, and Jersey Cash 5 winners claimed more than \$79.8 million in prizes. Total sales in FY19 were \$156.4 million, and Jersey Cash 5 contributed \$65.4 million to the State.



Pick-6, a core New Jersey Lottery game that has changed in style over the years, has always been a fan favorite since its launch in 1980. New Jersey saw nearly 2.5 million Pick-6 winners in FY19 across all prize tiers, and players claimed more than \$39.0 million in prizes. In FY19, sales totaled over \$76.7 million, compared to \$63.4 million in FY18. Additionally, \$31.9 million was contributed to the State.

Three Pick-6 jackpot winning tickets were sold during the 2019 Fiscal Year:

December 17, 2018 - \$29.5 million - largest jackpot since 2004

February 25, 2019 - \$4.5 million

April 29, 2019 - \$4.0 million





The New Jersey Lottery joined Mega Millions, originally called The Big Game, in 1999 before it was renamed Mega Millions in 2002. Today, 44 state lotteries, the District of Columbia, and the U.S. Virgin Islands sell Mega Millions.

Over 5.8 million New Jersey winning Mega Millions tickets were sold in FY19, and New Jersey players brought home over \$143.2 million in prizes. Sales totaled \$285.3 million, and Mega Millions contributed \$121.7 million to the State General Fund.

On October 23, 2018, Mega Millions made history with its highest jackpot ever, a \$1.537 billion jackpot. From that drawing, there were two \$1,000,000 winners, one \$30,000 winner, and fourteen \$10,000 winners from New Jersey.

The luck struck New Jersey on March 1, 2019, when a New Jersey player from Warren County purchased a ticket worth \$273,000,000. In FY19, there were thirteen New Jersey second-tier prize winners of \$1,000,000 or more.



This multi-state jackpot game came to New Jersey on January 31, 2010 and is sold by 44 state lotteries, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands.

In FY19, over 4.5 million winning Powerball tickets were sold in New Jersey, and players claimed nearly \$111.3 million in prizes. Total sales for the year were \$236.3 million, and Powerball contributed \$110.4 million to the State.

Throughout the fiscal year, Powerball made twelve second-tier prize winners of \$1,000,000 or more.



RETAILER MENTION

In addition to Lottery players and State beneficiaries, Lottery retailers are our other State winners. When they engage consumers with Lottery products, they earn commissions on big wins! Retailers utilize winner awareness banners and signs to show customers that their store sells winning tickets. They drive awareness and educate players about new games and Lottery promotions using eye-catching POS materials that the Lottery provides.





This multi-state game offers a top prize of \$1,000 a Day for Life and a second-tier prize of \$1,000 a Week for Life. CASH4LIFE originally launched in New Jersey and New York on June 16, 2014, with drawings held at the New Jersey Lottery studio. Over the years, interest in the game has grown across the country and there are now nine participating states.

In FY19, there were than 2.2 million New Jersey winners. Players took home over \$19.1 million in prizes. Total sales were \$37.0 million, and CASH4LIFE contributed nearly \$15.5 million to the State.

Three lucky New Jersey players won the second prize of \$1,000 a Week for Life with tickets purchased on October 29, 2018 in East Brunswick, April 22, 2019 in West Orange and June 24, 2019 in Keyport.



Fast Play offers players instant ways to play a variety of games right from the lottery terminal. Fast Play launched in August 2015 and is the fastest way to win on a computer generated game, as players do not select numbers or wait for drawings. In June 2018, Fast Play became Fast Play Progressive, whereby all Fast Play games contribute to one progressive jackpot. The jackpot starts at \$10,000 and increases whenever a Fast Play game is purchased.

In FY19, total sales were \$22.7 million and New Jersey players won \$14.5 million. Additionally, Fast Play contributed \$6.3 million to the State.



The 5 Card Cash game gives players two chances to win: Win Now, where players can win up to \$5,000 instantly; Win Tonight where a 5 Card Cash drawing is held following each evening drawing streamed online. This poker-style digital draw game launched May 16, 2016.

In FY19, 5 Card Cash players claimed \$2.1 million in prizes and total sales were \$3.8 million. 5 Card Cash contributed over \$1.3 million to the State General Fund.



Quick Draw is a social space game that lets players “hang out and play” with friends in settings like bars and restaurants. The game launched on July 17, 2017, initially in select social space retailers. On October 1, 2018, Quick Draw expanded to the entire retailer network and introduced the add-on, BULLSEYE, which gives players the opportunity to win bigger prizes and more chances to win.

Quick Draw is growing in popularity and Quick Draw players won \$79.5 million in prizes in FY19 as compared to \$32.9 million in FY18. Total sales were \$129.6 million, up from \$53.3 million in FY18. Quick Draw contributed \$38.5 million to the State.





Scratch-Offs are the New Jersey Lottery's top-selling category of games. Instant games joined the Lottery's line-up in 1975 with the game *7-11-21*. Since then, a large variety of games have been brought to market, including *Crossword*, *Bingo*, and licensed co-branded tickets. In September 2018, with the launch of the *Lucky 7s* family, the Instant Games category officially became "Scratch-Offs."

Total sales for Scratch-Offs in FY19 were \$1.93 billion, and New Jersey players won \$1.26 billion in prizes. Retailers earned \$111.8 million in commissions, and Scratch-Offs contributed \$432.5 million to the State.

With the popularity and success of the *Lucky 7s* family in past runs of these games, the New Jersey Lottery re-introduced this family in September 2018. The \$30 *Lucky 7s* ticket that launched in May 2018 joined the group in addition to the \$1, \$2, \$5 and \$10 price points with top prizes from \$20,000 to \$5,000,000. The New Jersey Lottery also introduced the *Precious Metals* family in February 2019. This included four games – *Copper Payout*, *Silver Payout*, *Gold Payout*, and *Platinum Payout*, with top prizes ranging from \$20,000 to \$2,000,000.

Holiday themed Scratch-Offs hit shelves November 2018 with *Holiday Loose Change*, *Holiday Lucky Times 10*, *Holiday Bucks* and *\$1,000,000 Spectacular*.



The Lottery's VIP Club gives members exclusive benefits like jackpot alerts, daily winning number emails, sweepstakes and opt-in drawings, exclusive promotions and events, and personalized notifications. Members also get second chance opportunities that include the Million Dollar Replay and Lottery Bonus Zone. The VIP Club continues to grow year over year and expand its special offers to members, and it's free to join.

The Million Dollar Replay program offers VIP Club members the opportunity to enter non-winning tickets into quarterly drawings for the chance to win prizes up to \$1,000,000. One hundred entrants are selected in each quarterly drawing to win a \$250 prize each and are entered into the Grand Prize Drawing where they could win prizes from \$10,000 to \$1,000,000. In March, Grand Prize Finalists were invited to attend the drawing at the Million Dollar Replay event, which was held at Convention Hall in Asbury Park for its second year in a row. Those who could not attend were able to watch the event live at home on the website and on Facebook.

VIP Club members were awarded a wide range of prizes including prize packs, concert tickets and VIP experiences through *The Voice* game. Members who entered their non-winning *The Voice* tickets into the Lottery Bonus Zone had a shot at a second-chance opportunity to attend The Voice Live Finale, win up to \$1,000,000, and more.



This online community gives New Jersey residents the opportunity to share their opinion and give feedback on Lottery products, advertising, promotions, and more. They can answer surveys and participate in discussions about games. Input from Game Changers is used to help the Lottery provide the best gaming experience to everyone.



NEW CAMPAIGNS



101 DAYS OF SUMMER

From May 2018 – September 2018, the New Jersey Lottery celebrated 101 Days of Summer. Kicking off Memorial Day Weekend and concluding Labor Day Weekend, players were given the chance to win prizes every day for 101 days at Lottery-sponsored events and festivals across the state with the Promotions Team, and via promotions through the VIP Club, Game Changers, social media, and text message program.



QUICK DRAW Lucky Bar Challenge

It was game-on in the Garden State with Quick Draw, the game that can be played in social spaces like bars and restaurants, when the New Jersey Lottery launched the Lucky Bar Challenge in July 2018. This promotion ran periodically throughout the year and participating bars competed to find out which was the luckiest in the state. The weekly Top 5 Lucky Bar Winners were entitled to host an extra Bonus Hour for players, during which player prizes were increased by 50%. Players and bar owners could see how their bar stacked up on the New Jersey Lottery website and the mobile app.



SCRATCH-OFFS DIVISION

With the launch of the Lucky 7s Family of Scratch-Offs in September 2018, the New Jersey Lottery introduced the Scratch-Offs Division – a group of six characters who portray employees who develop New Jersey Lottery Scratch-Offs for players. Each with his or her own unique personality, friendly disposition, and passion for Scratch-Offs, this group is highlighted in advertising across TV, digital, and social advertising in new Scratch-Offs launches. They've even made appearances at Lottery events to meet with players.



QUICK DRAW BULLSEYE:

What Type of Winner Will You Be?

The add-on, BULLSEYE was introduced to the game Quick Draw in October 2018, which gave players the chance to win bigger prizes and more chances to win. With this launch, Quick Draw went network-wide to over 7,000 retailers. To support the BULLSEYE launch and build game awareness, the New Jersey Lottery executed the What Type of Winner Will You Be? campaign, highlighting the different ways players show excitement when they win playing Quick Draw.





QUICK DRAW BULLSEYE:

Nothing Beats the Draw of Quick Draw

A few months later in April 2019, the campaign Nothing Beats the Draw of Quick Draw was introduced with three themed TV commercials – Band Practice, Spin Class, and Book Club – to show how exciting it is to play Quick Draw.



JOY & PRIZES

After the success of 101 Days of Summer, with the launch of Holiday Scratch-Offs in November 2018, the New Jersey Lottery executed The Season of Joy & Prizes campaign which gave players the chance to win prizes every day during the holiday season at Lottery-sponsored events with the Promotions Team, and via promotions through the VIP Club, Game Changers, social media, and text message program.



PICK-3

The longstanding Pick-3 game was given a brand refresh with a new advertising campaign supporting Pick-3 sales and awareness in January 2019. The campaign highlighted the large number of \$300 winners the game makes regularly and how winning Pick-3 lets players “live large for a little while.”



PRECIOUS METALS

The Precious Metals family of Scratch-Offs was introduced in February 2019 with four games that had prizes from \$20,000 to \$2,000,000. This was the first time the New Jersey Lottery launched a Precious Metals themed family. It had significant design elements that differentiated them from previous game families. These games had a sleek, monochromatic, premium look and feel. Advertising support included TV commercials that featured the Scratch-Offs Division getting locked in a vault with the Precious Metals Scratch-Offs.

WINNER
HIGHLIGHTS

\$273 MILLION



**\$273 MILLION
MEGA MILLIONS
MARCH 1, 2019**

One lucky Lottery player of Alpha in Warren County, New Jersey purchased tickets for the Pick-6 game and for Mega Millions and checked both using the Lottery app on his phone. First, he checked the Pick-6 tickets and didn't have any winners. When he checked the Mega Millions game board of tickets, one of the lines indicated he had won the jackpot. He told his mother who was nearby that he had won the Mega Millions jackpot, but she didn't believe him. He sat contemplating the reality for a short time and decided he had to get it to the store immediately to confirm. He ventured out in a snowstorm to his closest retailer just to scan the ticket and read the good news in person - it was a jackpot winning ticket!



**\$1 MILLION
MEGA MILLIONS
MAY 28, 2019**

A twenty-year-old student from Oceanport in Monmouth County, opted to get Mega Millions tickets instead of his usual Scratch-Offs tickets, when the jackpot of \$414 million caught his eye. The tickets sat, unchecked, in his wallet over the next two days. His dad invited him to lunch to discuss summer employment options. On the drive to the restaurant, He knew he was about to be lectured on the need to get a summer job. In an attempt to avoid the discussion, He figured this was as good a time as any to check the Mega Millions tickets and hope for the best. A quick look down his ticket showed a line that matched five out of the five white balls drawn for the drawing, missing only the Gold Mega Ball. "Dad, I've got five numbers!" he shouted. After stopping the car, his dad checked the numbers and asked if it was a prank before being reassured that it was real. It was hard to contain their excitement when they found out the prize was \$1,000,000!



\$29.5 MILLION

\$29.5 MILLION PICK-6 DECEMBER 17, 2018

A New Jersey resident facing a tough holiday season, due to circumstances beyond her control, and with a thin budget worried about an uncertain future. However, luck proved to be on her side when she purchased a Pick-6 ticket for the December 17, 2018 drawing and won \$29.5 million!

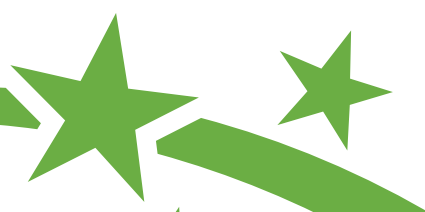
\$4.5 MILLION PICK-6 FEBRUARY 25, 2019

One lucky Hudson County regular Draw Games player hadn't played in a few days, so he decided to purchase some tickets to get in the game. While working the next day he stopped at the retailer location where he had bought his tickets and saw that the winning ticket for the Pick-6 jackpot drawing had been sold there. The retailer scanned his ticket, and they both realized he had won the jackpot. "I don't want to sound cliché, but they say all you need is a dollar and a dream, and it's true," he said. "I cried tears of joy."



\$1 MILLION \$20 INSTANT CASH MILLIONAIRE SCRATCH-OFF MARCH 2019

A lucky Lottery player from Rockaway in Morris County purchased a \$20 Instant Cash Millionaire Scratch-Off ticket and used a "lucky penny" to scratch off the numbers to see if she had won a prize. When it looked as though the ticket was a \$1 million winner, she immediately thought she was mistaken and proceeded to read the information listed on the back of the ticket, check it multiples times, and look up the game rules on the Lottery's website. Finally, she brought the ticket to her retailer who confirmed that it really was worth \$1 million! This was her very first big win!





STATE OF NEW JERSEY,
DIVISION OF STATE LOTTERY

Financial Statements and Supplementary Information

June 30, 2019

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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.

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:

- 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

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)

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)

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	\$ 0.8	\$ 1.5	\$ 1.6

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	3,528	3,353	3,233
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	2,403	2,294	2,222
Operating income	1,125	1,059	1,011
Non-Operating (expenses) revenue	(20)	(29)	(27)
Income before transfers out	1,105	1,030	984
Operating transfers - State contributions	1,105	1,030	994
(Decrease) increase in net position	\$ (0.7)	\$ 0	\$ (10)

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.

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

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 top cap had to be utilized

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

FINANCIAL STATEMENTS (CONTINUED)

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

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	38,854,417
Sub Total Incentive Payments	\$ 43,883,017
High Cap (Actual Net Income X 3%)	\$ 33,915,363
Total Incentive Payments Pre Amendment	\$ 33,915,363
20% Reduction Required by Amendment	6,783,073
Further \$1 million Reduction Required by Amendment	1,000,000
Post Amendment Incentive	\$ 26,132,290

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	\$ 0	\$ (7)	\$ 7

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

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.

MERCADIEN, 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		
Current Assets		
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	285,567,316	291,305,395
Non-Current Assets		
Investments - deposit fund contracts	213,186,263	209,860,703
Total non-current assets	213,186,263	209,860,703
Total assets	\$ 498,753,579	\$ 501,166,098
LIABILITIES		
Current Liabilities:		
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	284,189,671	291,736,039
Non-Current Liabilities		
Compensated absences	542,326	588,831
Installment prize awards	213,186,263	207,385,703
Total non-current liabilities	213,728,589	207,974,534
Total Liabilities	497,918,260	499,710,573
NET POSITION		
Restricted for prize awards or contributions	1,553,422	1,000,000
Unrestricted	(718,103)	455,525
Total Net Position	\$ 835,319	\$ 1,455,525

See notes to financial statements.

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	3,482,346,197	3,299,702,751
Other revenues		
Forfeited Prizes	44,474,662	52,361,976
Miscellaneous	912,315	1,333,000
Total operating revenues	3,527,733,174	3,353,397,727
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	2,403,128,424	2,294,679,281
Operating Income	1,124,604,750	1,058,718,446
Non-operating revenue	5,907,333	3,265,058
Income Before Transfers	1,130,512,084	1,061,983,504
Northstar NJ incentive payment	(26,132,290)	(31,859,505)
Income available for Transfer	1,104,379,794	1,030,123,999
Transfers out		
Contributions to Pensions	105,000,000	976,000,000
Contributions to Treasury	-	54,296,012
Changes in net position	(620,206)	(172,013)
Net position, beginning of year	1,455,526	1,627,539
Net position - end of year	\$ 835,319	\$ 1,455,526

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	1,117,693,898	1,064,274,622
Cash Flows used in Non-Capital Financing Activities		
Contributions to State	(1,100,296,012)	(1,037,000,000)
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	(17,482,997)	(34,279,400)
Net decrease in cash	(85,111)	(7,004,778)
Cash, beginning of year	199,968	7,204,746
Cash, end of year	\$ 114,857	\$ 199,968
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	\$ 1,117,693,898	\$ 1,064,274,622

See 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 Firemen's 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 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 order of priority of pronouncements and other sources of accounting and financial reporting

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

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.

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.

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.

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.

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	\$ 476,847,366	\$ 45,171,524	\$241,778,399	\$ 189,897,443

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY
NOTES TO FINANCIAL STATEMENTS

B. CASH AND INVESTMENTS (CONTINUED)

	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	\$ 484,823,491	\$ 39,622,971	\$250,280,682	\$ 194,919,838

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.

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

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

E. COMMITMENTS (CONTINUED)

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 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
	\$ 2,896,229

Rent expense for office facilities and equipment for the years ended June 30, 2019 and 2018, was \$844,785 and \$840,845, respectively.

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/annrprts.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

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	(55,000,000)	(66,168,048)	(11,168,048)
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	1,500,000	912,315	(587,685)
Total operating revenues	3,472,014,600	3,527,733,174	55,718,574
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	1,200,000	-	1,200,000
Total Operating Expenses	2,402,960,396	2,403,128,424	(168,028)

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY
SUPPLEMENTARY INFORMATION

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

	Year ended June 30, 2019		
	Budget (unaudited)	Actual	Variance (unfavorable) favorable
Operating Income	1,069,054,204	1,124,604,750	55,550,546
Non-operating revenue	200,000	5,907,333	5,707,333
Income Before Transfers	1,069,254,204	1,130,512,084	61,257,880
Northstar NJ incentive payment	(32,077,626)	(26,132,290)	5,945,336
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	—	—	—
Change in net position	—	(620,206)	(620,206)
Net assets, beginning of year	1,626,011	1,455,526	(170,485)
Net assets - end of year	\$ 1,626,011	\$ 835,319	\$ (790,692)

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY
SUPPLEMENTARY INFORMATION

SCHEDULE OF NET POSITION

	As of June 30, 2019			
	Treasury	Pension Fund L	Elimination Entries	Total
ASSETS				
Current Assets				
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	22,846,850	263,151,082	(430,616)	285,567,316
Non-Current Assets				
Investments - deposit fund contracts	202,215,243	10,971,020	—	213,186,263
Total non-current assets	202,215,243	10,971,020	—	213,186,263
Total assets	\$ 225,062,093	\$ 274,122,102	\$ (430,616)	\$ 498,753,579
LIABILITIES				
Current Liabilities:				
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	23,362,249	261,258,038	(430,616)	284,189,671
Non-Current Liabilities				
Compensated absences	—	542,326	—	542,326
Installment prize awards	202,215,243	10,971,020	—	213,186,263
Total non-current liabilities	202,215,243	11,513,346	—	213,728,589
Total Liabilities	225,577,492	272,771,384	(430,616)	497,918,260
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	\$ (84,783)	\$ 920,102	\$ —	\$ 835,319

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-Offs (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

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY
SUPPLEMENTARY INFORMATION

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (CONTINUED)

	Year ended June 30, 2019		
	Treasury	Pension Fund L	Total
Operating Income	(84,783)	1,124,689,533	1,124,604,750
Non-operating revenue			
Interest	-	5,907,333	5,907,333
(Loss) income available for transfer	(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

SUPPLEMENTARY INFORMATION

SCHEDULE OF INSTANT GAME 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
SUPPLEMENTARY INFORMATION

SCHEDULE OF INSTANT GAME 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 TIMES10	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

SUPPLEMENTARY INFORMATION

SCHEDULE OF INSTANT GAME 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
SUPPLEMENTARY INFORMATION

SCHEDULE OF INSTANT GAME 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

SUPPLEMENTARY INFORMATION

SCHEDULE OF INSTANT GAME 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
SUPPLEMENTARY INFORMATION

SCHEDULE OF INSTANT GAME 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
	\$ 1,930,525,773	\$ 1,911,034,446

SUPPLEMENTARY INFORMATION

SCHEDULE 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	\$ 9,027,964	\$ 9,160,858

SCHEDULE OF NORTHSTAR NJ NET INCOME TARGETS (UNAUDITED)

Year	Fiscal Year	Net Income Target	
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.

MERCADIEN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

January 21, 2020





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