

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

Financial Statements
and Supplementary Information

June 30, 2020

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

Table of Contents

	<u>Page Number</u>
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	1
INDEPENDENT AUDITORS' REPORT	10
BASIC FINANCIAL STATEMENTS	
STATEMENTS OF NET POSITION	13
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION	14
STATEMENTS OF CASH FLOWS	15
NOTES TO FINANCIAL STATEMENTS	16
SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION – BUDGET AND ACTUAL	26
SCHEDULE OF NET POSITION	27
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION	28
SCHEDULES OF SCRATCH-OFFS (INSTANT GAMES) REVENUES.....	29
SCHEDULES OF ADMINISTRATIVE EXPENSES	35
SCHEDULE OF NORTHSTAR NJ NET INCOME TARGETS (UNAUDITED)	36
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	37

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

INTRODUCTION

The following discussion and analysis provides an analytical overview of the financial position and activities of the State of New Jersey, Division of State Lottery (the "Division of State Lottery") for the years ended June 30, 2020 and 2019. 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 Division of State Lottery has control and oversight over the operations of the statewide lottery program ("the New Jersey Lottery") that sells various numbers draw games using computer sales terminals and instant or scratch-offs games using pre-printed tickets.

The New Jersey Lottery's ticket sales totaled \$3.215 billion in fiscal year 2020. The net proceeds to the State totaled \$1.015 billion. Total ticket sales decreased 7.7% from fiscal year 2019 to fiscal year 2020, and the contribution decreased 8.1%, respectively. Prizes awarded to New Jersey Lottery players, the Lottery's largest expense item, totaled \$1.970 billion, and the New Jersey Lottery paid \$185 million in commissions to our network of nearly 7,000 retailers.

The Division of State Lottery's financial position at June 30, 2020 and 2019, consisted of total assets of \$521 million and \$499 million, respectively, and total liabilities of \$519 million and \$498 million, respectively. A substantial portion of the asset and liability amounts for the year ended June 30, 2020, 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, 2020 and 2019, were \$229 million and \$235 million, respectively. Net position increased from \$835,319 in fiscal year 2019 to \$1,503,624 for fiscal year 2020.

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
- Cash Pop
- Quick Draw
- 5 Card Cash All In (sales for this game were suspended in May 2020 due, in part, to the COVID-19 pandemic).

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

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

INTRODUCTION (CONTINUED)

Pursuant to the Lottery Enterprise Contribution Act, L. 2017, c. 98 ("LECA"), the Lottery Enterprise was contributed to certain eligible Pension Plans for a 30-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 (the "Pension Plans"). 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"). Northstar commenced providing these services to the Division of State Lottery on October 1, 2013. The Northstar Contract expires on June 30, 2029.

Northstar is reimbursed 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. Northstar did not meet the net income targets under the contract for fiscal year 2020 and consequently owed a shortfall payment to the Division of State Lottery of \$19,915,065. The incentive compensation paid to Northstar in fiscal year 2019 totaled \$26.1 million.

FINANCIAL STATEMENTS

The Division of State Lottery's financial statements include statements of net position as of June 30, 2020 and 2019, statements of revenues, expenses and changes in net position for years ended June 30, 2020 and 2019, and statements of cash flows for years ended June 30, 2020 and 2019. 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 2020 the assets and operations of the Division of State Lottery continue to be subject to provisions of LECA.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

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

FINANCIAL STATEMENTS (CONTINUED)

Statements of Net Position

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

	June 30,			\$ Change	% Change
	2020	2019	2018	2020-2019	2020-2019
Current Assets	\$ 315	\$ 286	\$ 291	\$ 29	10.1%
Deposit Fund Contracts	206	213	210	(7)	(3.3%)
Total Assets	521	499	501	22	4.4%
Current Liabilities	313	284	291	29	10.2%
Non-Current Liabilities	206	214	208	(8)	(3.7%)
Total Liabilities	519	498	499	21	4.2%
Restricted Net Position	1.9	1.5	1.0	0.4	26.7%
Unrestricted Net Position	(0.4)	(0.7)	0.5	0.3	(42.9%)
Total Net Position	\$ 1.5	\$ 0.8	\$ 1.5	0.7	87.5%

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 \$241 million and \$242 million at June 30, 2020 and 2019, 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 \$229 million and \$235 million as of June 30, 2020 and 2019, respectively. The Division of State Lottery has annuity investments with eleven insurance companies. The total market value of the United States Treasury securities was \$44 million and \$45 million at June 30, 2020 and 2019, respectively. The annuities due beyond fiscal years 2020 and 2019 total \$206 million and \$213 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 \$23 million and \$22 million as of June 30, 2020 and 2019, respectively.

Non-current liabilities represent annuity prize awards due beyond 2021 and also include the total due to Division of State Lottery employees for unused vacation and sick leave (compensated absences).

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

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

FINANCIAL STATEMENTS (CONTINUED)

Statements of Net Position (Continued)

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

	June 30,			\$ Change	% Change
	2020	2019	2018	2020-2019	2020-2019
Restricted (Unclaimed Prize Reserves)	\$ 1.9	\$ 1.5	\$ 1.0	\$ 0.4	26.7%
Unrestricted	(0.4)	(0.7)	0.5	0.3	(42.9%)
Total Net Position	<u>\$ 1.5</u>	<u>\$ 0.8</u>	<u>\$ 1.5</u>	0.7	87.5%

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:

	June 30,			\$ Change	% Change
	2020	2019	2018	2020-2019	2020-2019
Operating revenues					
Ticket sales	\$ 3,215	\$ 3,482	\$ 3,300	\$ (267)	(7.7%)
Forfeited prizes	44	45	52	(1)	(2.2%)
Miscellaneous income	1	1	1	-	0.0%
Total operating revenue	<u>3,260</u>	<u>3,528</u>	<u>3,353</u>	(268)	(7.6%)
Operating expenses					
Prize expenses	1,970	2,087	1,991	(117)	(5.6%)
Retailer commissions	185	198	188	(13)	(6.6%)
Northstar NJ fees and expenses	43	47	47	(4)	(8.5%)
Vendor fees	59	62	59	(3)	(4.8%)
Administrative expense	12	9	9	3	33.3%
Total operating expenses	<u>2,268</u>	<u>2,403</u>	<u>2,294</u>	(135)	(5.6%)
Operating income	<u>992</u>	<u>1,125</u>	<u>1,059</u>	(133)	(11.8%)
Non-Operating (expenses) revenue	<u>24</u>	<u>(20)</u>	<u>(29)</u>	44	220.0%
Income before transfers out	<u>1,016</u>	<u>1,105</u>	<u>1,030</u>	(89)	(8.1%)
Operating transfers – State contributions	<u>1,015</u>	<u>1,105</u>	<u>1,030</u>	(90)	(8.1%)
(Decrease) increase in net position	<u>\$ 0.7</u>	<u>\$ (0.7)</u>	<u>\$ -</u>	1	200.0%

Total Lottery ticket sales for fiscal year 2020 were \$3.215 billion, a 7.7% decrease from fiscal year 2019, when sales were \$3.482 billion. 2019 ticket sales were an increase of 5.5% over 2018 when sales were \$3.300 billion.

The Division of State Lottery's product offerings are divided into two major categories, scratch-offs (or instant games) and draw games. Sales of scratch-offs totaled \$1.95 billion during fiscal year 2020, an increase of 1.1% from \$1.93 billion in fiscal year 2019. 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.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

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

FINANCIAL STATEMENTS (CONTINUED)

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

Draw games include a wide spectrum of games, including classic New Jersey only games such as Pick 3, Pick 4, Jersey Cash 5 and Pick 6, and the multi-state jackpot games CASH4LIFE, Powerball and Mega Millions. In fiscal year 2020, draw game sales totaled \$1.34 billion compared to \$1.61 billion in fiscal year 2019, a decrease of 17%. The drop in draw game sales was driven by a decline in the sales of the multistate jackpot games, Powerball and Mega Millions. In fiscal year 2019, Powerball and Mega Millions both had several very large jackpots, including a record \$1.53 billion Mega Millions jackpot, and both games had exceptional sales as a result of the high jackpots. There were few large Powerball and Mega Millions jackpots in fiscal year 2020 and sales suffered as a result. The impact of the COVID-19 pandemic had an impact on sales in March and April, although sales bounced back in May and June.

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. The Division of State Lottery contributed to the State pension system \$1.015 billion (31% of net revenues) in fiscal year 2020 and \$1.105 billion (32% of net revenues) in fiscal year 2019.

The Division of State Lottery's largest expense consists of prizes awarded to players. The Division of State Lottery awarded approximately \$1.970 billion in prizes in fiscal year 2020 and approximately \$2.086 billion in fiscal year 2019. Prizes awarded decreased in connection with lower sales in fiscal year 2020.

The Division of State Lottery's second largest expense is retailer commissions. Retailers are paid a commission of 5% on all Lottery sales, and also earn a commission 1.25% for cashing winnings. The Division of State Lottery returned \$185 million and \$198 million to our network of nearly 7,000 retailers in fiscal years 2020 and 2019, 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 expenses also include several different vendor expenses. Northstar has subcontracts with various vendors for the Division of State Lottery's gaming system and the production of scratch-offs. Northstar invoices the Division of State Lottery for the costs associated with those vendors and services on a pass-through basis.

Gaming system fees are calculated based on the Division of State Lottery's total sales for the fiscal year and totaled \$35 million and \$37 million in fiscal years 2020 and 2019, 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 machines. Gaming system fees decreased proportionally with the decrease in sales.

Scratch-off printing fees are calculated primarily on the value of scratch-off tickets sold. There may be additional costs for individual scratch-off games, such as licensing fees or special features of an actual ticket. Scratch-off printing fees totaled \$24 million and \$24 million, respectively, in fiscal years 2020 and 2019.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

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

FINANCIAL STATEMENTS (CONTINUED)

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

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 and distribution for all lottery tickets. Northstar fees and expenses in fiscal years 2020 and 2019, were \$20 million each year. The costs of operating the Division of State Lottery's sales and marketing function include items such as employee salaries, rent and vehicle costs. The Northstar fees and expenses do not include incentive compensation paid to Northstar, as explained below.

Marketing and advertising expenses for the Lottery totaled \$22 million in fiscal year 2020 and \$27 million in fiscal year 2019. Marketing and advertising expenses are paid by Northstar to other vendors on behalf of the Division of State Lottery. 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. Marketing and advertising expenses decreased in fiscal year 2020 because Northstar, in consultation with the Division of State Lottery, decided to curtail marketing and advertising activities in the last quarter of fiscal year 2020 as the COVID-19 pandemic developed.

The Division of State Lottery's administrative expenses for the fiscal years 2020 and 2019 were \$11 million and \$9 million, respectively. These administrative expenses include salaries, auditing services, rent, security, data processing services, office supplies and fees to the Attorney General. Beginning for the first time in fiscal year 2020, these expenses include employee fringe benefits which totaled \$2 million. The Division of State Lottery has continued to perform several core functions of lottery operations following execution of the contract with Northstar. The Division of State Lottery remains responsible for the following operations: finance; payment of prizes; security and licensing of retailers; and conducting live drawings.

Incentive compensation paid to Northstar is classified as a non-operating expense. A shortfall payment owed by Northstar to the Division of State Lottery is classified as non-operating income. 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. Conversely, in the event that actual net income is below the contracted net income target, then contribution shortfall payment provisions in the Northstar Contract are invoked.

In fiscal year 2020, the Division of State Lottery had a total of \$23.8 million in non-operating revenue. This figure includes a shortfall payment from Northstar in the amount of \$19.9 million and other non-operating revenue, primarily interest earnings, of \$3.9 million. In fiscal year 2019, the Division of State Lottery had a total of \$20 million in non-operating expenses, consisting of a \$26 million incentive payment to Northstar, which was offset by \$6 million in non-operating revenue, primarily interest income.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

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

FINANCIAL STATEMENTS (CONTINUED)

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

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. Amendment 4 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 the incentive compensation and the shortfall payment for fiscal year 2020 is set forth in the table below and is based on Schedule 10.2 of the Northstar Contract and Amendment 4 to the Northstar Contract. Schedule 10.2, Section 2 provides in general terms that Northstar earns an incentive payment if the Division of State Lottery's Net Income exceeds targets identified as "Base Level Income" and "Middle Level Income" as specified for each remaining contract year in Amendment 4. Schedule 10.2, Section 3 of the Northstar contract provides that a "Net Income Shortfall" shall be deemed to have occurred in any Contract Year in which Net Income does not meet or exceed the Net Income Target for such Contract Year. If a shortfall payment is owed, the amount of the shortfall payment must offset any incentive payment.

Amendment 4 set a net income target for fiscal year 2020 of \$1,082,203,750. The actual amount of net income earned in 2020 was \$995,753,240, which was less than the net income target, resulting in a shortfall payment.

To calculate the shortfall payment, incentive compensation must be calculated. For fiscal year 2020, Amendment 4 set a Base Level Income target of \$889,263,150. 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. Net Income totaled \$995,753,240, in fiscal year 2020, resulting in an incentive payment of \$5,324,504. Amendment 4 set a Middle Level Income Target of \$1,015,034,370. 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. For fiscal year 2020, this amount was zero dollars because Net Income did not exceed \$1,015,034,370.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

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

FINANCIAL STATEMENTS (CONTINUED)

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

Schedule 10.2, Section 3 provides that a shortfall payment is owed if Net Income does not meet or exceed the Net Income Target. This amount is calculated based on 50% of the difference between the Net Income Target and the actual Net Income. Amendment 4 set the Net Income Target for fiscal year 2020 at \$1,082,203,750, and the Net Income Target was not met. The shortfall payment calculated was \$43,225,255, which was the offset by the incentive pay of \$5,324,504, resulting in a calculated shortfall payment of \$37,900,751.

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. Similarly, a shortfall payment to the Division of State Lottery cannot exceed 2% of operating income for the entire contract year. The 3% cap on incentive compensation was utilized in fiscal year 2019, and in fiscal year 2020 the 2% cap on a shortfall payment was utilized. Applying the 2% cap, Northstar owed a payment to the Division of State Lottery of \$19,915,065.

The calculation is outlined in the table below.

INCENTIVE PAYMENTS BANDS	FY 2020
Above Base Level, Below Middle Level	5.0%
Above Middle Level, Below Upper Level	20.0%
Operating Income Levels	
Base Level Income	\$ 889,263,150
Middle Level Income	\$1,015,034,370
Lottery Management Agreement NET INCOME	\$995,753,240
Incentive Payments	
Above Base, Below Middle	\$5,324,504
Penalty Payment, Below Target Above Base	<u>(\$43,225,255)</u>
Sub Total Incentive Payments (Shortfall Payment)	<u>(\$37,900,751)</u>
Low Cap (Actual Net Income X 2%)	<u>(\$19,915,065)</u>
Total Shortfall Payment	<u>(\$19,915,065)</u>

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

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

FINANCIAL STATEMENTS (CONTINUED)

Statements of Cash Flows

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

	Years Ended June 30,		
	2020	2019	2018
Cash flows from operating activities	\$ 1,003	\$ 1,117	\$ 1,064
Cash flows from non-capital financing activities	(982)	(1,100)	(1,037)
Cash flows from investing activities	(21)	(17)	(34)
Net increase (decrease) in cash	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (7)</u>

CONTACTING THE DIVISION'S FINANCIAL MANAGEMENT

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

INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the State of New Jersey, Division of State Lottery (the "Division of State Lottery") as of and for the years ended June 30, 2020 and 2019, 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, 2020 and 2019, 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 February 16, 2021, 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 Division of State Lottery's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division of State Lottery's internal control over financial reporting and compliance.

Mercadieu, P.C.

Certified Public Accountants

February 16, 2021

BASIC FINANCIAL STATEMENTS

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

STATEMENTS OF NET POSITION

	June 30,	
	2020	2019
ASSETS		
<u>Current Assets:</u>		
Cash	\$ 110,946	\$ 114,857
Accounts receivable, net of allowance for doubtful accounts of \$2,968,845 and \$2,725,260 in 2020 and 2019, respectively	49,493,069	20,466,302
Deferred Expenses	1,688,472	1,325,054
Investments:		
Deposit Fund Contracts	23,235,204	21,882,704
State of New Jersey Cash Management Fund	240,600,765	241,778,399
Total current assets	315,128,456	285,567,316
<u>Non Current Assets:</u>		
Investments - deposit fund contracts	205,791,402	213,186,263
Total non-current assets	205,791,402	213,186,263
Total assets	\$ 520,919,858	\$ 498,753,579
LIABILITIES		
<u>Current Liabilities:</u>		
Accounts payable and accrued expenses	\$ 35,555,807	\$ 80,548,974
Obligation for unpaid prize awards	90,305,260	50,757,993
Installment prize awards	23,235,204	21,882,704
Due to State of New Jersey	164,000,000	131,000,000
Total current liabilities	313,096,271	284,189,671
<u>Non Current Liabilities:</u>		
Compensated absences	528,562	542,326
Installment prize awards	205,791,402	213,186,263
Total non current liabilities	206,319,964	213,728,589
Total Liabilities	519,416,235	497,918,260
NET POSITION		
Restricted for prize awards or contributions	1,878,623	1,553,422
Unrestricted	(374,999)	(718,103)
Total Net Position	\$ 1,503,623	\$ 835,319

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Years ended June 30,	
	2020	2019
Operating revenues		
Ticket Sales		
Pick 3 Fireball	\$ 408,839,336	\$ 410,568,704
Pick 4 Fireball	261,493,194	259,073,849
Jersey Cash 5 Xtra	133,161,887	156,476,536
Pick 6 Xtra	54,989,015	76,794,918
CASH4LIFE Doubler	56,544,275	37,053,102
Mega Millions	145,670,721	285,337,321
Powerball	125,824,752	236,347,614
Quick Draw	110,265,856	129,669,141
Fast Play	17,125,158	22,787,910
5 Card Cash All In	2,773,841	3,879,377
Cash Pop	19,596,060	-
Scratch-offs (Instant Games)	1,952,222,699	1,930,525,773
Sales Discounts/Tickets Provided as Prizes	(73,123,474)	(66,168,048)
Total Ticket Sales	3,215,383,320	3,482,346,197
Other revenues		
Forfeited prizes	43,746,705	44,474,662
Miscellaneous	934,337	912,315
Total operating revenues	3,260,064,362	3,527,733,174
Operating expenses		
Prize expenses	1,969,610,589	2,086,629,181
Retailer commissions	185,196,373	198,540,397
Instant ticket vendor printing fees	24,105,338	24,149,110
Gaming system vendor fees	34,529,381	37,259,452
Northstar NJ management fee	4,484,167	5,272,479
Northstar NJ manager expenses	16,103,452	14,473,760
Northstar NJ advertising and marketing expenses	22,423,746	26,862,806
Administration expenses	10,915,866	9,027,964
Multi-state fees	68,212	69,828
Drawing broadcast fees	527,663	428,800
Bad debt expense	228,536	414,647
Total Operating Expenses	2,268,193,323	2,403,128,424
Operating Income	991,871,039	1,124,604,750
Non-operating revenue	3,882,201	5,907,333
Income Before Transfers	995,753,240	1,130,512,084
Northstar NJ shortfall (incentive) payment	19,915,065	(26,132,290)
Income available for transfer	1,015,668,305	1,104,379,794
Transfers out -		
Contributions to Pensions	1,015,000,000	1,105,000,000
Contributions to Treasury	-	-
Changes in net position	668,305	(620,206)
Net position, beginning of year	835,319	1,455,526
Net position, end of year	\$ 1,503,623	\$ 835,319

See notes to financial statements.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

STATEMENTS OF CASH FLOWS

	Years ended June 30,	
	2020	2019
Cash Flows from Operating Activities		
Sales to customers	\$ 1,396,845,113	\$ 1,682,615,458
Payments for prize awards	(284,533,434)	(477,439,868)
Payments for vendor commissions and fees	(106,147,050)	(78,765,791)
Payments to suppliers	(8,625,218)	(9,636,999)
Other payments	(64,721)	(331,988)
Cash flows from annuity operations		
Annuity receipts	21,889,704	24,093,704
Purchases of annuities	-	(6,202,956)
Payments of annuity prizes	(16,295,270)	(16,637,661)
Net cash from operating activities	<u>1,003,069,124</u>	<u>1,117,693,898</u>
Cash Flows from Non-Capital Financing Activities		
Contributions to State	<u>(982,000,000)</u>	<u>(1,100,296,012)</u>
Cash Flows from Investing Activities		
Cash Management Fund proceeds	1,621,151,180	1,752,410,343
Cash Management Fund purchases	(1,616,091,925)	(1,738,033,835)
Payments to Northstar NJ	(26,132,290)	(31,859,505)
Net cash from investing activities	<u>(21,073,035)</u>	<u>(17,482,997)</u>
Net change in cash	(3,911)	(85,111)
Cash, beginning of year	114,857	199,968
Cash, end of year	<u>\$ 110,946</u>	<u>\$ 114,857</u>
Reconciliation of operating income to net cash from operating activities		
Operating Income	\$ 991,871,039	\$ 1,124,604,750
Changes in assets and liabilities		
Accounts receivable	(29,026,769)	(5,832,084)
Investments - deposit fund contracts	6,042,362	(526,158)
Other assets	(362,837)	183,367
Accounts payable and accrued expenses	1,054,188	468,560
Obligation for unpaid prize awards	33,504,905	(1,158,033)
Compensating absences	(13,764)	(46,505)
Net cash from operating activities	<u>\$ 1,003,069,124</u>	<u>\$ 1,117,693,898</u>

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The State of New Jersey, Division of State Lottery (the "Division of State Lottery") and the State Lottery Commission (the "Commission") were concurrently established in 1970, pursuant to the "State Lottery Law" (N.J.S.A. 5:9-1 et seq.). The "Lottery Enterprise Contribution Act" ("LECA") approved in 2017, directs the Lottery Enterprise for the benefit of the Teachers' Pension and Annuity Fund ("TPAF"), the Public Employees' Retirement System ("PERS"), and the Police and 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

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

State of New Jersey Cash Management Fund

Investments in the State of New Jersey Cash Management Fund are valued at cost, which approximates fair value.

Accounts Receivable

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

Installment Prize Awards and Prize Expenses

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

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Installment Prize Awards and Prize Expenses (Continued)

Due to the long-term nature of these contracts, the credit quality of the issuer is subject to change. Amounts recorded as prize expense reflect the cost of annuity contracts and U.S. government securities necessary to satisfy stated prize awards plus any single payment awards. These annuities are presented on the statements of net position as deposit fund contracts, carried at contract value which approximates fair value.

Equipment

The Division of State Lottery follows the State's threshold for capitalizing equipment as follows: machinery and equipment over \$20,000 and motor vehicles over \$30,000. Purchases that do not meet the threshold for capitalization are recognized as expenses in the statements of revenues, expenses and changes in net position in the period during which they are acquired and are included in administrative expenses.

Net Position

Restricted

Amounts restricted for prize awards or contribution to pensions consist of prizes that are not claimed within one year from the date of the drawing for machine games and within one year from the date of game's closing for scratch-offs (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", "Cash Pop", and "5 Card Cash All In" games on the drawing date.
- Scratch-offs (instant games) are recognized daily, based upon the settlement of instant game inventory packs by selling retailers. Sales adjustments are recorded based upon final reconciliations prepared after the termination of a lottery instant game.
- Fastplay games upon the sale of each ticket.
- Sales discounts are recorded for the sales value of tickets provided to retailers at no cost, to be used for promotional purposes. Tickets provided as prizes are recorded as sales at the face value of each ticket, then backed out as discounts and are not included in prize expense.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Forfeited Prizes

The State Lottery Law requires that prizes not claimed within one year from the date of the drawing for machine games and within one year from the date of the game's closing for scratch-offs (instant games) be forfeited. Effective November 21, 1991, the Commission authorized that 70% of forfeited prizes are to be maintained in a reserve for prize awards and are available to augment future prize awards or, at the discretion of the executive director, to augment the Division of State Lottery's contribution for state aid for education and state institutions.

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

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

Contributions and Prize Awards

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

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

Commissions and Fees

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

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

Administrative Expenses

The Division of State Lottery records vacation and sick time incurred during the period in "administrative expenses" in the accompanying statements of revenues, expenses and changes in net position. Payments for accumulated sick leave balances are made to retiring employees upon regular retirement from the State of New Jersey's General Fund. Such payment is based on 50% of the employee's sick leave accumulation at the pay rate in effect at the time of retirement, up to a maximum of \$15,000. Employees separating from service prior to retirement are not entitled to payments for accumulated sick leave.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS

B. CASH AND INVESTMENTS

The Division of State Lottery adopted GASB Statement No. 40, "*Deposit and Investment Risk Disclosures*," which requires uncollateralized deposits exposed to custodial credit risk to be disclosed. The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits that are in possession of an outside party. The following is a summary of the Division of State Lottery's cash deposits by financial institution that could be exposed at June 30, 2020 and 2019. The Division of State Lottery's deposits with Wells Fargo are insured by the Federal Deposit Insurance Corporation up to \$250,000.

	June 30,	
	2020	2019
Wells Fargo	\$ 110,697	\$ 114,607
Total	\$ 110,697	\$ 114,607

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 statements of net position as of June 30, 2020 and 2019:

	June 30, 2020			
	Total	Level 1	Level 2	Level 3
Annuity Investment Deposit Fund Contracts	\$ 229,026,605	\$ 44,202,724	\$ -	\$ 184,823,881
New Jersey Cash Management Fund	240,600,765	-	240,600,765	-
Total	\$ 469,627,370	\$ 44,202,724	\$ 240,600,765	\$ 184,823,881

	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

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, 2020 and 2019, Delaware Life had annuity contracts totaling approximately \$18,737,511 and \$19,611,731, respectively. However, due to the long-term nature of these contracts, the credit quality of the issuer is subject to change.

At June 30, 2020 and 2019, the Division of State Lottery held insurance company annuity contracts issued through eleven insurance companies, totaling \$184,823,881 and \$189,897,443, respectively.

U.S. government securities installments range from twenty-five years to the lifetime of the recipient. The securities are recorded at estimated fair value. The estimated fair value of annuity contracts approximates the carrying value of the securities. At June 30, 2020 and 2019, the Division of State Lottery had \$44,202,724 and \$45,171,524, respectively, in U.S. treasuries included in guaranteed annuity contracts (see financial statement Note B).

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS

C. FUTURE INSTALLMENT PRIZE AMOUNTS (CONTINUED)

Concentration of Credit Risk

Concentration of credit risk is the risk that relates to the amount of investment at any one financial institution. 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, 2020 and 2019, is invested with each of the following five companies:

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

D. LITIGATION

The Division of State Lottery is a party to a number of lawsuits arising out of the conduct of its business. While the ultimate results of the lawsuits or other proceedings against the Division of State Lottery cannot be predicted with certainty, management of the Division of State Lottery does not expect that these matters will have a material adverse effect on the financial position or results of operations of the Division of State Lottery.

E. COMMITMENTS

Contractual Arrangements

The Division of State Lottery maintains a gaming network of nearly 7,000 retailer locations where all games are sold. IGT Corporation, formerly GTECH Corporation, is responsible for operating the network games and procurement of scratch-offs (instant games) tickets under a contract that was assigned to Northstar NJ on October 1, 2013, and expires concurrent with Northstar NJ's contract.

On June 20, 2013, a competitively bid 15-year contract was awarded to Northstar New Jersey Lottery Group, LLC ("NSNJ") to provide sales and marketing services to the Division of State Lottery. Northstar New Jersey Lottery Group, LLC is owned directly by two members: (1) Scientific Games New Jersey, LLC, and (2) Northstar New Jersey Holding Company, LLC, and indirectly by three companies: (1) IGT Corporation and (2) OSI LTT NJ Holdings Inc., which are the members of Northstar New Jersey Holding Company, LLC, and (3) Scientific Games International, Inc., which is the owner of Scientific Games New Jersey, LLC. The base services commenced on October 1, 2013. The contract required NSNJ to bid net income targets for each fiscal year of the 15-year contract. An amendment signed on December 31, 2015, revised the income level and targets downward for contract years 3 through 15. The amended contract provided for an allowance of \$2.5 million from Northstar NJ to the Division of State Lottery as an additional consideration for the terms contained therein. On May 3, 2019, the Division of State Lottery amended the service agreement with Northstar. Amendment 4 revised

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS

E. COMMITMENTS (CONTINUED)

Contractual Arrangements (Continued)

the formula for calculating the incentive payment owed to Northstar in fiscal year 2019, and increased the performance targets that are used to calculate any incentive payment to Northstar for the remaining 10 years of the Northstar Contract, thereby creating a higher performance bar to be reached before Northstar receives an incentive payment. If NSNJ meets or exceeds the net income target for a given fiscal year, they can earn an incentive pay or alternatively, if they don't meet the net income target, they are assessed a penalty.

For fiscal year 2020, NSNJ did not meet its amended contractual net income target resulting in a shortfall payment of \$19,915,065 to the Division of State Lottery. For fiscal year 2019, NSNJ met its amended contractual net income target resulting in an incentive payment of \$26,132,290 to NSNJ.

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 \$43,011,365 and \$46,609,045 for the years ended June 30, 2020 and 2019, respectively.

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

Operating Leases

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

<u>Years Ending June 30,</u>	<u>Amount</u>
2021	\$ 655,750
2022	655,750
2023	655,750
2024	273,229
	<u>\$ 2,240,479</u>

Rent expense for office facilities and equipment for the years ended June 30, 2020 and 2019, was \$879,995 and \$844,786, respectively.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS

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

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

G. PENSION PLAN

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

The Division of State Lottery's total covered payroll for the years ended June 30, 2020 and 2019, was \$5,644,196 and \$5,112,937, 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, 2020 and 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.

I. CONTINGENCIES

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Division of State Lottery operates. Due to the impact of New Jersey Governor Murphy's Executive Order No. 107 dated March 21, 2020, mandating statewide stay-at-home practices and closure of all non-essential retail businesses, it is reasonably possible fourth quarter sales of lottery tickets were impacted, though the exact impact from COVID could not be determined. It is unknown how long these conditions will last and what the complete financial effect will be to the Division of State Lottery.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS

J. PENDING GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS

The Governmental Accounting Standards Board has issued Statement No. 87, "Leases" This statement is required to be adopted by the Division of State Lottery for the year ending June 30, 2022. The Division of State Lottery has not determined the effect of Statement No. 87 on the financial statements.

The Governmental Accounting Standards Board has issued Statement No. 92, "Omnibus 2020." This statement is required to be adopted by the Division of State Lottery for the year ending June 30, 2022. The Division of State Lottery has not determined the effect of Statement No. 92 on the financial statements.

The Governmental Accounting Standards Board has issued Statement No. 94, "Public-Private and Public-Public Partnerships and Availability Payment Arrangements." This statement is required to be adopted by the Division of State Lottery for the year ending June 30, 2023. The Division of State Lottery has not determined the effect of Statement No. 94 on the financial statements.

The Governmental Accounting Standards Board has issued Statement No. 95, "Postponement of the Effective Dates of Certain Authoritative Guidance." This statement postpones the effective dates of applicable pending Statements described above. The effective dates mentioned above are the applicable postponed dates as prescribed by Statement No. 95.

The Governmental Accounting Standards Board has issued Statement No. 97, "Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB No. 32." This statement is required to be adopted by the Division of State Lottery for the year ending June 30, 2022. The Division of State Lottery has not determined the effect of Statement No. 97 on the financial statements.

SUPPLEMENTARY INFORMATION

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

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

Year ended June 30, 2020

	Budget (Unaudited)	Actual	Variance (Unfavorable) Favorable
Operating revenues			
Ticket Sales			
Pick 3 Fireball	\$ 406,000,000	\$ 408,839,336	\$ 2,839,336
Pick 4 Fireball	256,000,000	261,493,194	5,493,194
Jersey Cash 5 XTRA	156,000,000	133,161,887	(22,838,113)
Pick 6 XTRA	56,500,000	54,989,015	(1,510,985)
CASH4LIFE Doubler	50,500,000	56,544,275	6,044,275
Mega Millions	215,000,000	145,670,721	(69,329,279)
Powerball	212,000,000	125,824,752	(86,175,248)
Quick Draw	181,840,000	110,265,856	(71,574,144)
Fast Play	28,200,000	17,125,158	(11,074,842)
5 Card Cash All In	2,200,000	2,773,841	573,841
Cash Pop	23,000,000	19,596,060	(3,403,940)
Scratch-offs (Instant Games)	1,986,100,000	1,952,222,699	(33,877,301)
Sales Discounts/Tickets Provided as Prizes	(63,200,000)	(73,123,474)	(9,923,474)
Total Ticket Sales	3,510,140,000	3,215,383,320	(294,756,681)
Other revenues			
Forfeited prizes	52,000,000	43,746,705	(8,253,295)
Miscellaneous	1,500,000	934,337	(565,663)
Total operating revenues	3,563,640,000	3,260,064,362	(303,575,638)
Operating expenses			
Prize expenses	2,145,410,780	1,969,610,589	175,800,191
Retailer commissions	199,035,083	185,196,373	13,838,710
Instant ticket vendor printing fees	24,150,976	24,105,338	45,638
Gaming system vendor fees	37,278,578	34,529,381	2,749,197
Northstar NJ management fee	5,381,000	4,484,167	896,833
Northstar NJ manager expenses	19,617,000	16,103,452	3,513,548
Northstar NJ advertising and marketing expenses	28,464,000	22,423,746	6,040,254
Administration expenses	13,843,000	10,915,866	2,927,134
Multi-state fees	150,000	68,212	81,788
Drawing broadcast fees	500,000	527,663	(27,663)
Bad debt expense	600,000	228,536	371,464
Instant enhancement/license fees	1,200,000	-	1,200,000
Total Operating Expenses	2,475,630,417	2,268,193,323	207,437,094
Operating Income	1,088,009,583	991,871,039	(96,138,544)
Non-operating revenue	3,000,000	3,882,201	882,201
Income Before Transfers	1,091,009,583	995,753,240	(95,256,343)
Northstar NJ shortfall (incentive) payment	(19,722,437)	19,915,065	39,637,502
Income available for transfer	1,071,287,146	1,015,668,305	(55,618,841)
Transfers out:			
Contributions to Pensions	1,071,287,146	1,015,000,000	56,287,146
Change in net position	-	668,305	668,305
Net position, beginning of year	835,319	835,319	-
Net position, end of year	\$ 835,319	\$ 1,503,623	\$ 668,305

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

SCHEDULE OF NET POSITION

		As of June 30, 2020		
		Treasury	Pension Fund L	Total
ASSETS				
<u>Current Assets:</u>				
Cash		\$ -	\$ 110,946	\$ 110,946
Accounts receivable, net of allowance for doubtful accounts of \$2,968,845 and \$2,725,260 in 2020 and 2019, respectively		36,442	49,456,627	49,493,069
Deferred Expenses		1,274,500	413,972	1,688,472
Investments:				
Deposit Fund Contracts		22,575,204	660,000	23,235,204
State of New Jersey Cash Management Fund		-	240,600,765	240,600,765
Total current assets		23,886,146	291,242,311	315,128,456
<u>Non Current Assets:</u>				
Investments - deposit fund contracts		195,393,009	10,398,393	205,791,402
Total non-current assets		195,393,009	10,398,393	205,791,402
Total Assets		<u>\$ 219,279,155</u>	<u>\$ 301,640,703</u>	<u>\$ 520,919,858</u>
LIABILITIES				
<u>Current Liabilities:</u>				
Accounts payable and accrued expenses		\$ 1,342,004	\$ 34,213,803	\$ 35,555,807
Obligation for unpaid prize awards		-	90,305,260	90,305,260
Installment prize awards		22,575,204	660,000	23,235,204
Due to State Of New Jersey - Treasury Out		-	164,000,000	164,000,000
Total current liabilities		23,917,208	289,179,063	313,096,271
<u>Non Current Liabilities:</u>				
Compensated absences		-	528,562	528,562
Installment prize awards		195,393,009	10,398,393	205,791,402
Total non current liabilities		195,393,009	10,926,955	206,319,964
Total Liabilities		219,310,216	300,106,018	519,416,235
NET POSITION				
Restricted for prize awards or contributions to State		500,000	1,378,622	1,878,623
Unrestricted		(531,062)	156,063	(374,999)
Total Net Position		<u>\$ (31,062)</u>	<u>\$ 1,534,686</u>	<u>\$ 1,503,623</u>

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Year ended June 30, 2020		
	Treasury	Pension Fund L	Total
Operating revenues			
Ticket Sales			
Pick 3 Fireball	\$ -	\$ 408,839,336	\$ 408,839,336
Pick 4 Fireball	-	261,493,194	261,493,194
Jersey Cash 5 Xtra	-	133,161,887	133,161,887
Pick 6 Xtra	-	54,989,015	54,989,015
CASH4LIFE Doubler	-	56,544,275	56,544,275
Mega Millions	-	145,670,721	145,670,721
Powerball	-	125,824,752	125,824,752
Quick Draw	-	110,265,856	110,265,856
Fastplay	-	17,125,158	17,125,158
5 Card Cash All In	-	2,773,841	2,773,841
Cash Pop	-	19,596,060	19,596,060
Scratch-offs (instant games)	-	1,952,222,699	1,952,222,699
Sales discounts	-	(73,123,474)	(73,123,474)
Total ticket sales	-	3,215,383,320	3,215,383,320
Other revenues			
Forfeited prizes	-	43,746,705	43,746,705
Miscellaneous	73,131	861,206	934,337
Total operating revenues	73,131	3,259,991,231	3,260,064,362
Operating expenses			
Prize expenses	-	1,969,610,589	1,969,610,589
Retailer commissions	12,440	185,183,933	185,196,373
Instant ticket vendor printing fees	-	24,105,338	24,105,338
Gaming system vendor fees	-	34,529,381	34,529,381
Northstar NJ management fee	-	4,484,167	4,484,167
Northstar NJ manager expenses	-	16,103,452	16,103,452
Northstar NJ advertising and marketing expenses	-	22,423,746	22,423,746
Administration expenses	6,970	10,908,896	10,915,866
Multi-state fees	-	68,212	68,212
Drawing broadcast fees	-	527,663	527,663
Bad debt expense	-	228,536	228,536
Total operating expenses	19,410	2,268,173,912	2,268,193,323
Operating income	53,721	991,817,318	991,871,039
Non-operating revenue			
Interest	-	3,882,201	3,882,201
Income before transfers out	53,721	995,699,519	995,753,240
Northstar NJ shortfall payment	-	19,915,065	19,915,065
Income available for transfer	53,721	1,015,614,584	1,015,668,305
Transfers out			
Contributions to pensions	-	1,015,000,000	1,015,000,000
Total transfers out	-	1,015,000,000	1,015,000,000
Changes in net position	53,721	614,584	668,305
Net position, beginning of year	(84,783)	920,102	835,319
Net position, end of year	<u>\$ (31,062)</u>	<u>\$ 1,534,686</u>	<u>\$ 1,503,623</u>

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

SCHEDULES OF SCRATCH-OFFS (INSTANT GAMES) REVENUES

	Years ended June 30,	
	2020	2019
200X THE MONEY BONUS	\$ 210,267,600	\$ 15,000
\$200 MILLION CASH BONANZA	68,031,250	82,873,710
HIT \$2,000!	67,999,980	-
SUPER 50	56,496,340	-
100X THE MONEY BONUS	51,995,240	-
\$90,000,000 PLATINUM PAYOUT	51,790,708	44,100,460
SUPER TRIPLE 777	48,741,417	7,500
\$3,000,000 CASH OUT	47,160,950	62,448,170
\$2,000,000 LUCKY 7S	47,064,160	72,777,420
\$1,000,000 SPECTACULAR	46,718,390	-
HIT \$500!	43,516,770	-
CROSSWORD	41,515,476	-
MEGA CROSSWORD	38,187,501	-
50X THE MONEY BONUS	35,731,510	-
WINTER WISHES	32,701,858	-
\$3,000,000 MEGA BUCKS	31,390,560	-
\$52,000,000 GOLD PAYOUT	29,715,622	30,230,770
CROSSWORD (CC)	28,237,285	13,303,251
SUPER CROSSWORD	27,028,627	-
HIGH CARD POKER	26,751,798	1,500
SUPER CROSSWORD	26,745,102	-
\$500 FRENZY	26,081,059	-
CASH BLAST	25,949,380	4,942,980
BIG MONEY SPECTACULAR (M)	24,597,452	-
DAZZLING DIAMOND SPECTACULAR	23,140,740	55,036,835
SUPER CROSSWORD	22,972,415	-
MEGA CROSSWORD	22,719,660	-
BIG MONEY SPECTACULAR	21,835,106	-
HIT \$200!	21,414,672	-
\$1,000,000 SPECTACULAR	20,733,155	52,422,500
20X THE MONEY BONUS	20,027,695	-
WIN FOR LIFE	19,740,555	-
INSTANT CASH MILLIONAIRE	18,794,380	36,991,480
\$100,000 BINGO MULTIPLIER	18,019,211	-
MEGA CROSSWORD	17,889,138	25,085,140
\$250,000 CROSSWORD	17,637,655	-
\$250,000 CROSSWORD	17,519,735	-
\$250,000 CROSSWORD	17,085,100	-
POWER 5s	16,962,090	-
LUCKY TIMES 50	16,946,529	19,933,330
\$500 FRENZY	16,927,185	-
HOLIDAY LUCKY BONUS	16,598,358	-
DOUBLE MATCH BONUS	16,219,987	-
\$250,000 CROSSWORD	16,177,085	1,303,200
BIG MONEY SPECTACULAR	15,522,156	8,432,938
7 (THEME)	15,170,657	5,063,130
WIN FOR LIFE	15,161,708	12,809,650
LOTERIA	15,117,711	-

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

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

	Years ended June 30,	
	2020	2019
\$25,000 CASH LINES	14,508,918	-
-7-	14,215,060	-
BINGO BONUS SQUARE	13,991,499	-
CROSSWORD	13,957,857	-
DIAMOND RICHES	13,697,556	-
BINGO GOLD	12,769,627	-
HOLIDAY LUCKY TIMES 10	12,598,879	-
EMERALD 8s	11,755,280	1,200
SUPER CROSSWORD	11,510,820	15,125,730
HIT \$50!	11,388,312	-
LUCKY TIMES 20	11,185,980	6,774,670
\$250,000 CROSSWORD	11,064,180	-
LOTERIA (H)	11,018,369	4,580,745
10X THE MONEY BONUS	10,653,696	-
2020 CASH CELEBRATION	10,238,316	-
LOOSE CHANGE	8,711,807	-
\$18,000,000 SILVER PAYOUT	8,386,319	17,365,260
\$5,000,000 LUCKY 7s	8,285,984	188,078,180
DOUBLE DOLLAR BINGO	8,197,053	5,310,594
TIC TAC TOE DOUBLER	7,937,608	-
HIGH CARD POKER	7,276,315	-
LOOSE CHANGE	7,155,819	-
MONEY MULTIPLIER	7,112,902	-
\$500 FRENZY	6,940,552	18,779,135
SUMMER LUCKY TIMES 10	6,875,214	1,962,968
LOVE TO WIN \$50	6,785,726	-
FAST CASH	6,673,500	-
BINGO BONUS SQUARE	6,612,180	14,465,565
LUCKY 7s	6,210,870	-
\$1,000,000 GOLD RUSH	6,043,370	15,051,520
SUPER MONEY MULTIPLIER	5,513,068	11,495,360
LOOSE CHANGE (G)	4,743,663	1,542,638
HOLIDAY LUCK	4,660,997	-
LADY LUCK BONUS	4,484,660	19,648,775
DOUBLE MATCH	4,434,914	4,245,804
RUBY/EMERALD/SAPPHIRE MINE 20X	4,427,995	-
DIAMONDS AND DOLLARS	4,375,771	13,991,419
MONEY MATCH	3,830,690	20,135,875
\$8,000,000 COPPER PAYOUT	3,551,782	9,343,886
MONEY MADNESS	3,117,015	-
BIRTHDAY SURPRISE	3,068,806	-
FAST MONEY	2,858,934	4,212,007
MONEY ROLL	2,845,428	5,880,874
\$150K POKER RICHES	2,841,780	23,721,722
\$1,000,000 LUCKY 7S	2,802,290	56,871,086
BINGO PLUS	2,655,858	14,305,709
WILD TIME MULTIPLIER	2,547,540	16,305,305

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

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

	Years ended June 30,	
	2020	2019
JERSEY CASH BLOWOUT	2,426,120	15,330,022
QUICK \$100s	2,272,152	-
BIRTHDAY SURPRISE	2,120,416	4,682,844
\$250,000 CROSSWORD (T)	2,109,034	15,380,510
LOTERIA	1,792,200	-
RUBY RED RICHES	1,541,070	10,053,195
BIG MONEY SPECTACULAR	1,491,600	-
CASH BLAST	1,130,310	28,781,094
SUPER TIC TAC TOE	914,908	16,612,787
THE VOICE	839,360	6,764,892
50X THE BUCKS	676,330	20,602,644
MONEY MULTIPLIER	629,962	10,800,998
LOOSE CHANGE	512,960	6,082,240
\$10,000 BONUS	370,250	8,488,220
BIG MONEY SPECTACULAR	346,727	24,302,786
CROSSWORD	273,414	41,353,515
SUPER CROSSWORD	243,300	-
BACKSTAGE PASS TO CASH	230,188	1,933,914
QUICK \$50s	222,616	9,439,486
SUPER CROSSWORD	155,155	26,735,291
FAST CASH	147,847	8,590,786
POCKET CHANGE	116,800	-
\$200,000 LUCKY 7S	113,510	29,660,530
\$250,000 CROSSWORD	91,360	17,568,196
LOTERIA	89,965	15,940,527
\$500 FRENZY	32,040	25,725,617
WIN FOR LIFE	14,784	25,474,707
LOOSE CHANGE (D)	13,005	6,283,508
MEGA CROSSWORD	12,720	37,529,080
MILLION DOLLAR MULTIPLIER	12,370	38,782,290
BINGO TIMES 10	11,135	19,141,847
BLACKOUT BINGO	10,617	5,439,343
\$200,000 GOLD RUSH	10,065	8,892,595
HOLIDAY LUCKY TIMES 10	6,880	13,076,012
HOT RICHES	4,630	28,709,090
\$250,000 CROSSWORD	4,240	17,233,601
\$20,000 LUCKY 7S	3,704	13,666,558
SUPER CROSSWORD	3,045	26,956,930
HOLIDAY BUCKS	1,400	16,547,948
BIG MONEY SPECTACULAR	420	24,633,559
PLATINUM DIAMOND SPECTACULAR	-	2,199,440
SUPER CROSSWORD	-	1,447,640
BIG MONEY SPECTACULAR	-	1,410,696
\$250,000 CROSSWORD	-	1,053,680
LOOSE CHANGE	-	750,201
SUPER CASINO	-	733,026
\$500 FRENZY	-	302,940

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

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

	Years ended June 30,	
	2020	2019
20X THE BUCKS	-	82,065
LOVE TO WIN DOUBLER	-	79,728
LOOSE CHANGE	-	49,505
BIG MONEY SPECTACULAR	-	29,262
CASH IN A FLASH	-	15,700
\$1,000,000 MAYHEM	-	11,560
INSTANT BINGO	-	9,390
LOTERIA (D)	-	8,007
\$150,000 POKER	-	7,055
HOT SPOT BINGO	-	4,360
CROSSWORD	-	4,146
HOLIDAY SPARKLE	-	4,122
SUPER CROSSWORD	-	3,965
HIT \$100!	-	3,778
HOLIDAY LUCKY TIMES 10	-	3,644
5X THE BUCKS	-	3,494
\$250,000 CROSSWORD	-	3,150
POCKET CHANGE	-	2,775
HOLIDAY SPECTACULAR	-	2,050
LOTERIA	-	24
DOUBLE DOLLARS	-	(1)
POCKET CHANGE	-	(2)
ALL CASH CLUB	-	(5)
SUPER CROSSWORD	-	(75)
INSTANT BINGO	-	(120)
BOARDWALK BUCKS	-	(126)
LUCKY 7s	-	(207)
CASH IN A FLASH	-	(290)
EXTRA PLAY	-	(305)
BIG MONEY SPECTACULAR	-	(308)
\$250,000 CROSSWORD	-	(310)
BANKROLL BINGO	-	(324)
\$20,000 HOLLYWOOD CASH FANTASY	-	(450)
BIRTHDAY SURPRISE	-	(454)
\$150,000 GOLD RUSH	-	(480)
POKER SHOWDOWN	-	(540)
\$5,000,000 CASH EXTRAVAGANZA	-	(600)
BINGO BONUS SQUARE	-	(600)
CROSSWORD	-	(600)
LUCKY 7s TRIPLER	-	(605)
LADY LUCK	-	(730)
CASH FLURRIES	-	(764)
SUPER CROSSWORD	-	(785)
\$500 MONEY MADNESS	-	(840)
HOT STREAK	-	(870)
MONEY BAGS	-	(900)
BLACK AND GOLD	-	(1,070)

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

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

	Years ended June 30,	
	2020	2019
LUCKY 7s MULTIPLIER	-	(1,200)
\$10K BLOWOUT	-	(1,220)
SPRING \$50s	-	(1,258)
LUCKY 7\$ DOUBLER	-	(1,268)
\$500 MAYHEM	-	(1,280)
BIG MONEY SPECTACULAR	-	(1,506)
MEGA CROSSWORD	-	(1,600)
POWER PLAY CROSSWORD	-	(1,623)
LUCKY CATCH	-	(1,702)
DOUBLE \$\$	-	(1,775)
\$250,000 CROSSWORD	-	(1,800)
MULTIPLIER MANIA	-	(1,820)
ALL CASH CLUB	-	(1,965)
SIZZLIN HOT 7S	-	(2,080)
ALL CASH MILLIONS	-	(2,380)
DOUBLE MATCH	-	(3,184)
BIG MONEY SPECTACULAR	-	(3,346)
LIBERTY BILLS	-	(3,982)
\$250,000 CROSSWORD	(30)	71,810
CASH BASH	(40)	1,664,030
MEGA CROSSWORD	(40)	917,820
WIN FOR LIFE	(126)	188,103
LOOSE CHANGE	(226)	6,422,689
CROSSWORD	(300)	2,051,417
7	(300)	1,516,935
10X THE BUCKS	(314)	82,510
\$500,000 RICHES	(380)	843,970
LOOSE CHANGE	(400)	3,911,465
MONEY VAULT	(435)	1,240,574
PRIOR YEAR GAME	(500)	(508)
DIAMONDS AND DOLLARS	(510)	1,205,810
BIG MONEY SPECTACULAR	(600)	20,992,148
HOLIDAY LOOSE CHANGE	(640)	4,814,663
FAST MONEY	(656)	1,758,880
\$250,000 CROSSWORD	(790)	17,614,969
100 X THE BUCKS	(820)	17,973,210
INSTANT BINGO	(1,220)	4,496,553
BIRTHDAY SURPRISE	(1,334)	2,147,408
SUPER CROSSWORD	(1,440)	22,980,113
SUMMER LUCKY TIMES10	(1,482)	7,488,546
\$250,000 CROSSWORD	(1,650)	12,648,453
\$20,000 GOLD RUSH	(2,296)	3,429,840
CROSSWORD	(2,346)	39,667,952
LOTERIA	(2,418)	11,209,111
PINK DIAMOND BINGO	(2,425)	5,113,150
\$5,000,000 FORTUNE	(2,490)	21,360,596
DOUBLE WIN	(2,667)	4,004,020

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY**SCHEDULES OF SCRATCH-OFFS (INSTANT GAMES) REVENUES (CONTINUED)**

	Years ended June 30,	
	2020	2019
\$1,000,000 SPECTACULAR	(3,000)	24,333,656
LUCKY TIMES 20	(3,925)	10,374,495
HIGH CARD POKER	(4,385)	16,725,518
MONEY ROLL	(5,202)	8,925,661
	<u>\$ 1,952,222,699</u>	<u>\$ 1,930,525,773</u>

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

SCHEDULES OF ADMINISTRATIVE EXPENSES

	Years ended June 30,	
	2020	2019
Salaries	\$ 5,630,432	\$ 5,466,456
Fringe benefits	2,387,400	-
Printing and office supplies	55,754	46,824
Vehicular supplies	617	646
Household and clothing	8,688	6,743
Travel	45,394	44,038
Telephone	108,509	95,059
Postage	35,468	40,232
Data processing	534,659	558,955
Household and security	255,725	247,581
Professional services	462,525	1,180,875
Other professional services	328,717	266,950
Data processing-OIT	65,561	82,480
Maintenance - building and grounds	9,205	8,010
Maintenance - office equipment	10,096	4,483
Rent - building and grounds	879,995	844,786
Rent - other	-	9,500
Central motor pool	69,349	85,897
Other equipment	19,750	8,946
Information processing equipment	1,052	1,624
Amortization	6,970	27,879
Total administrative expenses	<u>\$ 10,915,866</u>	<u>\$ 9,027,964</u>

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

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, 2020, and the related notes to financial statements, which comprise the Division of State Lottery's basic financial statements, and have issued our report thereon dated February 16, 2021.

Internal Control over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Mercadieu, P.C.
Certified Public Accountants

February 16, 2021