

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

Financial Statements
and Supplementary Information

June 30, 2022

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

Table of Contents

June 30, 2022

	<u>Page Number</u>
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	1
INDEPENDENT AUDITORS' REPORT	9
BASIC FINANCIAL STATEMENTS	
STATEMENTS OF NET POSITION.....	12
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION.....	13
STATEMENTS OF CASH FLOWS	14
NOTES TO FINANCIAL STATEMENTS	15
SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION – BUDGET AND ACTUAL	25
SCHEDULE OF NET POSITION	26
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION	27
SCHEDULES OF SCRATCH-OFFS (INSTANT GAMES) REVENUES.....	28
SCHEDULES OF ADMINISTRATIVE EXPENSES.....	33
OTHER INFORMATION	
SCHEDULE OF NORTHSTAR NJ NET INCOME TARGETS (UNAUDITED)	34
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	35
Schedule of Current Year Findings and Recommendations.....	37
Summary Schedule of Prior Year Audit Findings.....	38

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, 2022 and 2021. 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 draw games using computer sales terminals and instant or scratch-offs games using pre-printed tickets.

The New Jersey Lottery's sales totaled \$3.634 billion in fiscal year 2022. The net proceeds to the State totaled \$1.111 billion. Sales decreased 1.3% from fiscal year 2021 to fiscal year 2022, and the contribution increased 0.5%, respectively. Prizes awarded to New Jersey Lottery players, the Division of State Lottery's largest expense item, totaled \$2.209 billion. Commissions paid to New Jersey Lottery retailers, the Division of State Lottery's second largest expense item, totaled \$213 million.

The Division of State Lottery's financial position at June 30, 2022 and 2021, consisted of total assets of \$496 million and \$484 million, respectively, and total liabilities of \$495 million and \$483 million, respectively. A substantial portion of the asset and liability amounts for the year ended June 30, 2022, 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, 2022 and 2021, were \$207 million and \$219 million, respectively. Net position increased from \$133,899 in fiscal year 2021 to \$1,291,013 for fiscal year 2022.

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
- Pick 3 Fireball
- Pick 4 Fireball
- Jersey Cash 5 Xtra
- Pick 6 Double Play
- Mega Millions/Megaplier
- Powerball/Powerplay
- CASH4LIFE Doubler
- Fast Play
- Cash Pop
- Quick Draw
- Raffle

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. 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.

Prior to implementation of the LECA (July 1, 2017), the Lottery underwent a valuation as an asset of the eligible pension plans. The purpose of the valuation was to ensure that the lottery revenues anticipated by the LECA for the duration of the act, were reasonable. The LECA requires that the Lottery be re-valued every 5 years. The first such re-valuation was conducted in fiscal year 2022. The valuation, conducted by Acacia Financial determined the initial valuation to be reasonable and slightly adjusted anticipated revenues for the remaining years of the term of LECA.

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 exceed the net income targets under the contract for fiscal year 2022 and consequently is owed an incentive payment by the Division of State Lottery of \$19,314,696. In fiscal year 2021, Northstar did meet the net income targets under the contract and was paid \$23,373,282 by the Division of State Lottery.

FINANCIAL STATEMENTS

The Division of State Lottery's financial statements include statements of net position as of June 30, 2022 and 2021, statements of revenues, expenses and changes in net position for years ended June 30, 2022 and 2021, and statements of cash flows for years ended June 30, 2022 and 2021. 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 2022, 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
	2022	2021	2020	2022-2021	2022-2021
Current Assets	\$ 310	\$ 285	\$ 315	\$ 25	8.9%
Non-Current Assets	186	199	206	(13)	(6.5%)
Total Assets	496	484	521	12	2.6%
Current Liabilities	309	284	313	25	8.8%
Non-Current Liabilities	186	199	206	(13)	(6.3%)
Total Liabilities	495	483	519	12	2.5%
Restricted Net Position	1.6	1.2	1.9	0.4	34.4%
Unrestricted Net Position	(0.3)	(1.1)	(0.4)	0.8	(69.2%)
Total Net Position	\$ 1.3	\$ 0.1	\$ 1.5	1.2	1,040.4%

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 \$246 million and \$231 million at June 30, 2022 and 2021, 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 \$207 million and \$219 million as of June 30, 2022 and 2021, respectively. The Division of State Lottery has annuity investments with eleven insurance companies. The total market value of the United States Treasury securities was \$34 million and \$41 million at June 30, 2022 and 2021, respectively. The annuities due beyond fiscal years 2022 and 2021 total \$185 million and \$198 million, respectively. These represent the majority of 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 the life of a winner. 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 \$21 million and \$22 million as of June 30, 2022 and 2021, respectively.

Non-current liabilities represent annuity prize awards due beyond 2023 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 is summarized (in millions) as follows:

	June 30,			\$ Change	% Change
	2022	2021	2020	2022-2021	2022-2021
Restricted (Unclaimed Prize Reserves)	\$ 1.6	\$ 1.2	\$ 1.9	\$ 0.4	34.4%
Unrestricted	(0.3)	(1.1)	(0.4)	0.8	(69.2%)
Total Net Position	<u>\$ 1.3</u>	<u>\$ 0.1</u>	<u>\$ 1.5</u>	1.2	1,040.4%

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
	2022	2021	2020	2022-2021	2022-2021
Operating revenues					
Ticket sales	\$ 3,634	\$ 3,684	\$ 3,215	\$ (49)	(1.3%)
Forfeited prizes	49	28	44	21	75.9%
Miscellaneous income	2	1	1	0	33.1%
Total operating revenue	<u>3,685</u>	<u>3,713</u>	<u>3,260</u>	(28)	(0.8%)
Operating expenses					
Prize expenses	2,209	2,245	1,970	(36)	(1.6%)
Retailer commissions	213	214	185	(1)	(0.5%)
Northstar NJ fees and expenses	49	45	43	4	9.7%
Vendor fees	67	68	59	(0)	(0.3%)
Administrative expense	15	13	12	2	14.8%
Bad debt expense	-	1	-	(1)	(100.0%)
Total operating expenses	<u>2,554</u>	<u>2,586</u>	<u>2,268</u>	(32)	(1.2%)
Operating income	<u>1,131</u>	<u>1,127</u>	<u>992</u>	4	0.4%
Non-Operating (expenses) revenue	<u>(19)</u>	<u>(23)</u>	<u>24</u>	4	(18.4%)
Income before transfers out	<u>1,112</u>	<u>1,104</u>	<u>1,016</u>	8	0.7%
Operating transfers – State contributions	<u>1,111</u>	<u>1,105</u>	<u>1,015</u>	6	0.5%
(Decrease) increase in net position	<u>\$ 1.0</u>	<u>\$ (1.0)</u>	<u>\$ 0.7</u>	2	193.2%

Total Lottery ticket sales for fiscal year 2022 were \$3.634 billion, a 1.3% decrease from fiscal year 2021, when sales were \$3.684 billion.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

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

FINANCIAL STATEMENTS (CONTINUED)

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

The Division of State Lottery is required by the State 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 \$1.111 billion (30.6% of net revenues) in fiscal year 2022 and \$1.105 billion (30% of net revenues) in fiscal year 2021. The amount contributed to public pensions in fiscal year 2022 was the highest in New Jersey Lottery history, and a \$6 million increase over the fiscal year 2021 contribution, despite the slight decrease in sales. The increased profitability was due, in part, to strong Powerball sales, which added an extra drawing each week and had several large jackpots, and an increase in forfeited (also referred to as "unclaimed") prizes compared to fiscal year 2021. A prize is officially unclaimed and its corresponding funds revert to the possession of the Division of State Lottery when it goes unclaimed for one year from the date of the draw or game end. Unclaimed prizes correlate to higher sales and also to large jackpots in the multistate games, and the record sales in fiscal year 2021 resulted in the significant increase in unclaimed prizes in fiscal year 2022.

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 \$2.201 billion during fiscal year 2022, an increase of 0.8% from \$2.184 billion in fiscal year 2021. Sales of scratch-offs totaled \$2.184 billion during fiscal year 2021, an increase of 11.9% from \$1.952 billion in fiscal year 2020.

Draw games include a wide spectrum of games, including classic New Jersey only games such as Pick 3 Fireball, Pick 4 Fireball, Jersey Cash 5 Xtra, Pick 6 Double Play, Raffle, Fast Play, Cash Pop and Quick Draw and the multi-state jackpot games Cash4Life Doubler, Powerball, Mega Millions. In fiscal year 2022, draw game sales totaled \$1.577 billion compared to \$1.612 billion in fiscal year 2021, a decrease of 0.2%. In fiscal year 2021, Lottery sales increased approximately 20% over fiscal year 2020 because there were limited entertainment options during the COVID-19 pandemic. Fiscal year 2022 saw Lottery sales starting to return to pre-pandemic levels, although the return to normalcy impacted sales minimally.

The Division of State Lottery's largest expense consists of prizes awarded to players. The Division of State Lottery awarded approximately \$2.209 billion in prizes in fiscal year 2022 and approximately \$2.245 billion in fiscal year 2021. Prizes awarded decreased in conjunction with slightly lower sales in fiscal year 2022.

The Division of State Lottery's second largest expense is retailer commissions. Retailers are paid a commission of 5% on all Lottery sales and a commission of 1.25% for cashing winnings. The Division of State Lottery returned \$213 million and \$214 million to our network of nearly 7,000 retailers in fiscal years 2022 and 2021, respectively. Both prize expense and retailer commissions are functions of total sales, and as sales decrease, those expenses also decrease.

The Division of State Lottery's expenses also include several different vendor expenses. Northstar has subcontracts with various vendors for the operation of 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.

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)

Gaming system fees are calculated based on the Division of State Lottery's total sales for the fiscal year and totaled \$39.7 million and \$39.9 million in fiscal years 2022 and 2021, 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 are proportional to sales, and decrease slightly, similar to prize and commission expenses.

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 \$28 million, respectively for both fiscal years 2022 and 2021.

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 operating the sales force, conducting promotions, game development and creating the marketing strategy. As noted above, Northstar is also responsible for managing certain key subcontracts. Northstar management fees and expenses in fiscal years 2022 and 2021, were \$20.9 million and \$20 million, respectively. 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 Division of State Lottery totaled \$28 million in fiscal year 2022 and \$25 million in fiscal year 2021. Marketing and advertising expenses are separate from the management fees described above and are paid by Northstar to other vendors on behalf of the Division of State Lottery. The advertising and marketing costs include, for example, purchasing advertising time on television and radio, and production costs for the advertisements, billboards, and point of sale materials, such as posters and counter displays. Marketing and advertising expenses were less in fiscal year 2021 because Northstar, in consultation with the Division of State Lottery, decided to curtail marketing and advertising activities because of the COVID-19 pandemic. In fiscal year 2022, these costs increased in conjunction with the return to normalcy.

The Division of State Lottery's administrative expenses for the fiscal years 2022 and 2021 were \$14 million and \$12 million, respectively, for each year. These administrative expenses include salaries, employee fringe benefits, auditing services, rent, security, data processing services, office supplies and fees to the Attorney General. 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. If there is a shortfall payment owed by Northstar to the Division of State Lottery, it would be 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.

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)

In fiscal year 2022, the Division of State Lottery had a total of \$19.2 million in non-operating expenses. This figure includes an incentive payment to Northstar in the amount of \$19.3 million and \$0.1 million in adjustments related to the newly enacted Government Accounting Standards Board ("GASB") Statement No. 87 requirements. This amount was offset by \$0.5 million in non-operating revenue consisting entirely of interest earnings. In fiscal year 2021, the Division of State Lottery had a total of \$23.3 million in non-operating expenses. This figure includes an incentive payment to Northstar in the amount of \$23.4 million and \$0.1 million in GASB Statement No. 87 adjustments which was offset by \$0.4 million in non-operating revenue consisting entirely of interest earnings.

In fiscal year 2019, the Division of State Lottery amended ("Amendment 4") the service agreement with Northstar. Amendment 4 revised the formula for calculating the incentive payment owed to Northstar in that year, and increased the performance targets that are used to calculate any incentive payment to Northstar for the remainder of the 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. Since its inception, Amendment 4 has reduced the cumulative incentive payment to Northstar by more than \$26.3 million.

The calculation of the incentive compensation for fiscal year 2022 is set forth in the table below and is based on Schedule 10.2 of the Northstar Contract and Amendment 4. 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 2022 of \$1,104,531,442. The actual amount of net income earned in 2022 was \$1,131,346,358 which was greater than the net income target, resulting in an incentive payment.

Under Amendment 4, there are two target income bands that are used to calculate incentive compensation, for each remaining year of the Northstar Contract. For fiscal year 2022, Amendment 4 set a Base Level Income target of \$908,988,525. 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. For fiscal year 2022, this amount was \$8,385,624. Amendment 4 set a Middle Level Income Target of \$1,076,700,995. 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 2022, this amount was \$10,929,073. Thus, the total incentive pay earned by Northstar was \$19,314,696. In fiscal year 2021, the total incentive pay earned by Northstar was \$23,373,282. The incentive pay owed to Northstar decreased, even though the profit contributed to the State increased because sales decreased and the structure of Amendment 4 anticipates a decreasing incentive payment over time.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

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

FINANCIAL STATEMENTS (CONTINUED)

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

The 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 not utilized in fiscal year 2022.

The calculation is outlined in the table below.

INCENTIVE PAYMENTS BANDS	FY 2022
Above Base Level, Below Middle Level	5.0%
Above Middle Level, Below Upper Level	20.0%
Operating Income Levels	
Base Level Income	\$ 908,988,525
Middle Level Income	\$1,076,700,995
Lottery Management Agreement Net Income	\$1,131,346,358
Incentive Payments	
Above Base, Below Middle	\$ 8,385,624
Above Middle	\$ 10,929,073
Subtotal Incentive Payment	\$ 19,314,696
High Cap (Actual Net Income X 3%)	\$ 33,940,391
Total Incentive Payments	\$ 19,314,696

Statements of Cash Flows

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

	June 30,			\$ Change	% Change
	2022	2021	2020	2022-2021	2022-2021
Cash flows from operating activities	\$ 1,127	\$ 1,135	\$ 1,003	\$ (8)	(0.7%)
Cash flows from non-capital financing activities	(1,090)	(1,164)	(982)	74	(6.4%)
Cash flows from investing activities	(37)	29	(21)	(67)	(225.9%)
Net increase (decrease) in cash	\$ -	\$ -	\$ -	-	- %

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 Audit of the Financial Statements

Opinions

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, 2022 and 2021, 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.

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, 2022 and 2021, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Division of State Lottery and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Accounting Principle

As discussed in Note E to the financial statements, in 2022, the Division of State Lottery adopted new accounting guidance Governmental Accounting Standards Board ("GASB") Statement No. 87, "Leases". Our opinion is not modified with respect to this matter.

Responsibility of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Division of State Lottery's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- exercise professional judgement and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements
- obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Division of State Lottery's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the GASB 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 GAAS, 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that comprise the Division of State Lottery's basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is 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 budgeted amounts, 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 GAAS. In our opinion, except for budgeted amounts, the accompanying supplementary information, as listed in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the financial statements. The other information comprises the schedule of Northstar NJ Net Income Targets, as listed in the table of contents but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audits of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2023, 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 7, 2023

BASIC FINANCIAL STATEMENTS

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

STATEMENTS OF NET POSITION

		June 30,	
		2022	2021*
ASSETS			
<u>Current Assets:</u>			
Cash	\$	159,898	\$ 234,636
Accounts receivable, net of allowance for doubtful accounts of \$2,659,665 and \$2,962,599 in 2022 and 2021, respectively		41,315,280	30,092,217
Deferred Expenses		1,701,452	1,375,501
Investments:			
Deposit Fund Contracts		21,367,704	21,786,704
State of New Jersey Cash Management Fund		245,666,525	231,413,298
Total current assets		<u>310,210,859</u>	<u>284,902,356</u>
<u>Non Current Assets:</u>			
Investments - deposit fund contracts		185,447,089	197,614,132
Right of Use Asset		616,135	1,051,054
Total non-current assets		<u>186,063,224</u>	<u>198,665,186</u>
Total Assets	\$	<u>496,274,083</u>	<u>\$ 483,567,542</u>
LIABILITIES			
<u>Current Liabilities:</u>			
Accounts payable and accrued expenses	\$	55,191,592	\$ 52,176,793
Obligation for unpaid prize awards		105,402,741	104,647,323
Installment prize awards		21,367,704	21,786,704
Lease Payable		583,202	560,371
Due to State of New Jersey		126,000,000	105,085,000
Total current liabilities		<u>308,545,238</u>	<u>284,256,191</u>
<u>Non Current Liabilities:</u>			
Compensated absences		740,783	730,160
Lease Payable		249,958	833,160
Installment prize awards		185,447,089	197,614,134
Total non current liabilities		<u>186,437,830</u>	<u>199,177,453</u>
Total Liabilities		<u>494,983,069</u>	<u>483,433,645</u>
NET POSITION			
Restricted for prize awards or contributions		1,630,204	1,213,203
Unrestricted		(339,190)	(1,079,304)
Total Net Position	\$	<u>1,291,013</u>	<u>\$ 133,898</u>

*Certain account balances have been restated to conform with current year presentations. See Note E for details.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Years ended June 30,	
	2022	2021*
Operating revenues		
Ticket Sales		
Pick 3 Fireball	\$ 432,405,725	\$ 453,335,104
Pick 4 Fireball	274,862,465	290,990,746
Jersey Cash 5 Xtra	157,439,813	180,350,985
Pick 6 Double Play	62,868,070	56,600,770
CASH4LIFE Doubler	58,975,403	59,699,839
Mega Millions	147,238,717	213,755,652
Powerball	241,001,378	175,330,245
Quick Draw	112,115,435	110,769,166
Fast Play	40,180,302	28,838,757
Raffle	4,025,060	-
Cash Pop	46,159,886	41,935,464
Scratch-offs (Instant Games)	2,201,022,844	2,183,539,800
Sales Discounts/Tickets Provided as Prizes	(144,141,921)	(111,532,236)
Total Ticket Sales	3,634,153,177	3,683,614,292
Other revenues		
Forfeited prizes	48,868,631	27,788,964
Miscellaneous	1,634,748	1,228,649
Total operating revenues	3,684,656,555	3,712,631,905
Operating expenses		
Prize expenses	2,209,064,696	2,245,238,722
Retailer commissions	213,167,242	214,255,666
Instant ticket vendor printing fees	27,670,944	27,698,278
Gaming system vendor fees	39,672,435	39,852,995
Northstar NJ management fee	5,610,000	5,494,000
Northstar NJ manager expenses	15,339,888	14,502,188
Northstar NJ advertising and marketing expenses	27,946,787	24,581,610
Administration expenses	14,154,300	12,197,492
Multi-state fees	85,722	68,479
Drawing broadcast fees	1,136,409	1,125,292
Bad debt expense	-	548,681
Total operating expenses	2,553,848,423	2,585,563,404
Operating Income	1,130,808,132	1,127,068,501
Non-operating revenues		
Interest income	538,226	362,533
Income Before Transfers	1,131,346,358	1,127,431,034
Northstar NJ shortfall (incentive) payment	(19,314,696)	(23,373,282)
Lease amortization	125,452	103,515
Income available for transfer	1,112,157,114	1,104,161,267
Transfers out -		
Contributions to Pensions	1,111,000,000	1,105,085,000
Changes in net position	1,157,114	(923,733)
Net position, beginning of year	-	1,503,624
Prior period restatement	-	(445,992)
Net position, beginning of year, as restated	133,899	1,057,632
Net position, end of year	\$ 1,291,013	\$ 133,899

*Certain account balances have been restated to conform with current year presentations. See Note E for details.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

STATEMENTS OF CASH FLOWS

	Years Ended June 30,	
	2022	2021*
Cash Flows from Operating Activities		
Sales to customers	\$ 1,614,268,704	\$ 1,643,700,441
Payments for prize awards	(364,062,587)	(382,326,004)
Payments for vendor commissions and fees	(116,477,902)	(118,805,216)
Payments to suppliers	(11,995,895)	(10,922,660)
Other payments	(157,532)	(195,518)
Cash flows from annuity operations		
Annuity receipts	21,546,584	21,765,704
Purchases of annuities	-	(2,473,211)
Payments of annuity prizes	(16,022,828)	(16,082,262)
Net cash from operating activities	<u>1,127,098,545</u>	<u>1,134,661,275</u>
Cash Flows from Non-Capital Financing Activities		
Contributions to State	<u>(1,090,085,000)</u>	<u>(1,164,000,000)</u>
Cash Flows from Investing Activities		
Cash Management Fund proceeds	1,494,985,000	1,687,750,000
Cash Management Fund purchases	(1,508,700,000)	(1,678,202,650)
Payments from/to Northstar NJ	(23,373,282)	19,915,065
Net cash from investing activities	<u>(37,088,282)</u>	<u>29,462,415</u>
Net change in cash	(74,737)	123,690
Cash, beginning of year	234,636	110,946
Cash, end of year	<u>\$ 159,898</u>	<u>\$ 234,636</u>
Reconciliation of operating income to net cash from operating activities		
Operating Income	\$ 1,130,808,132	\$ 1,127,068,501
Changes in assets and liabilities		
Accounts receivable	(11,223,064)	19,400,853
Investments - deposit fund contracts	12,586,044	9,625,769
Other assets	(1,284,564)	(1,077,911)
Accounts payable and accrued expenses	7,073,386	(26,667,361)
Obligation for unpaid prize awards	(11,830,625)	4,716,294
Lease Payable	958,613	1,393,532
Compensating absences	10,624	201,597
Net cash from operating activities	<u>\$ 1,127,098,545</u>	<u>\$ 1,134,661,275</u>

*Certain account balances have been restated to conform with current year presentations. See Note E for details.

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 LECA 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 GASB and other entities that promulgate accounting principles. GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, establishes the order of priority of pronouncements and other sources of

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

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 ("NJCMF") 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 Double Play", "Mega Millions", "Powerball", "CASH4LIFE Doubler", "Quick Draw", "Cash Pop" and "Raffle" 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.

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, 2022 and 2021. The Division of State Lottery's deposits with Wells Fargo are insured by the Federal Deposit Insurance Corporation up to \$250,000.

	June 30,	
	2022	2021
Wells Fargo	\$ 159,398	\$ 234,136
Total	\$ 159,398	\$ 234,136

The NJCMF is a common trust fund administered by the Department of the Treasury, Division of Investment. 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 GAAP. 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, 2022 and 2021:

	June 30, 2022			
	Total	Level 1	Level 2	Level 3
Annuity Investment Deposit Fund Contracts	\$ 206,814,792	\$ 33,645,888	\$ -	\$ 173,168,904
New Jersey Cash Management Fund	245,666,525	-	245,666,525	-
Total	\$ 452,481,317	\$ 33,645,888	\$ 245,666,525	\$ 173,168,904

	June 30, 2021			
	Total	Level 1	Level 2	Level 3
Annuity Investment Deposit Fund Contracts	\$ 219,400,836	\$ 40,950,602	\$ -	\$ 178,450,234
New Jersey Cash Management Fund	231,413,298	-	231,413,298	-
Total	\$ 450,814,134	\$ 40,950,602	\$ 231,413,298	\$ 178,450,234

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 Double Play, 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 reduced by 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, and
 - 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, 2022 and 2021, Delaware Life had annuity contracts totaling approximately \$18,321,600 and \$18,363,570, respectively. However, due to the long-term nature of these contracts, the credit quality of the issuer is subject to change.

At June 30, 2022 and 2021, the Division of State Lottery held insurance company annuity contracts issued through eleven insurance companies, totaling \$173,168,904 and \$178,450,234, 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, 2022 and 2021, the Division of State Lottery had \$33,645,888 and \$40,950,602, respectively, in U.S. treasuries included in guaranteed annuity contracts (see Note B).

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.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS

C. FUTURE INSTALLMENT PRIZE AMOUNTS (CONTINUED)

Concentration of Credit Risk (Continued)

A significant portion (in excess of 5% of total) of the Division of State Lottery's investment in annuity contracts at June 30, 2022 and 2021, 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. CHANGE IN ACCOUNTING PRINCIPLE AND PRIOR PERIOD RESTATEMENT

Effective June 30, 2022, the Division of State Lottery implemented GASB Statement No. 87, "Leases". The requirements of this Statement improve financial reporting by increasing the usefulness of the Division of State Lottery's financial statements by requiring recognition of lease assets and liabilities for leases that previously were classified as operating leases. It established a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset. Accordingly, net position was restated by \$(445,992) to retrospectively record the lease liability and asset and to fully recognize the related prior period interest expense and amortization of the lease asset as required by the GASB Statement No. 87. See Note F for additional detail regarding the active Division of State Lottery lease subject to this standard.

	Original Balance July 1, 2020	Restatement	Balance Restated July 1, 2020
Net Position	\$ 1,503,624	\$ (445,992)	\$ 1,057,632

F. 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 NSNJ to provide sales and marketing services to the Division of State Lottery. NSNJ 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

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS

F. COMMITMENTS (CONTINUED)

Contractual Arrangements (Continued)

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 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 payment or alternatively, if they do not meet the net income target, they are assessed a penalty.

For fiscal year 2022, NSNJ met its amended contractual net income target resulting in an incentive payment of \$19,314,696 to NSNJ. For fiscal year 2021, NSNJ met its amended contractual net income target resulting in an incentive payment of \$23,373,282 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 \$48,896,675 and \$44,577,798 for the years ended June 30, 2022 and 2021, 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

Lease	Date	Payment Terms	Annual Payment Amount	Interest Rate	Total Lease Liability	Balance June 30, 2022
Rental of Office Space	12/1/2003	20 years	\$ 605,913	4.00%	\$ 8,698,378	\$ 833,160

The Division of State Lottery entered into a noncancelable lease with One Lawrence, LLC for office space. The lease expires on 12/1/2023. There are no additional renewal years included and Division of State Lottery will renegotiate the office space at the end of the 20-year lease term. The interest rate on the lease is fixed based on the prime interest rate of 4.00% as of December 1, 2003, lease commencement date.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS

F. COMMITMENTS (CONTINUED)

Operating Leases (Continued)

Annual requirements to amortize long-term obligations and related interest are as follows:

Year Ending June 30,	Principal	Interest	Total
2023	\$ 583,202	\$ 22,711	\$ 605,913
2024	249,959	2,505	252,464
	<u>\$ 833,160</u>	<u>\$ 25,216</u>	<u>\$ 858,377</u>

G. 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.

H. 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, 2022 and 2021, was \$5,730,121 and \$5,456,890, 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, 2022 and 2021, 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.

I. ROUNDING

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

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS

J. PENDING GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS

The GASB 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 GASB has issued Statement No. 101, *"Compensated Absences."* This statement is required to be adopted by the Division of State Lottery for the year ending June 30, 2025. The Division of State Lottery has not determined the effect of Statement No. 101 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, 2022

	Budget (Unaudited)	Actual	Variance (Unfavorable) Favorable
Operating revenues			
Ticket sales			
Pick 3	\$ 439,200,000	\$ 432,405,725	\$ (6,794,275)
Pick 4	283,500,000	274,862,465	(8,637,536)
Jersey Cash 5	186,100,000	157,439,813	(28,660,187)
Pick 6 Lotto	56,600,000	62,868,070	6,268,070
Cash 4 Life	56,000,000	58,975,403	2,975,403
Mega Millions	205,000,000	147,238,717	(57,761,283)
Powerball	215,000,000	241,001,378	26,001,378
Quick Draw	121,400,000	112,115,435	(9,284,565)
Fastplay	27,100,000	40,180,302	13,080,302
Raffle	10,000,000	4,025,060	(5,974,940)
Cash Pop	39,800,000	46,159,886	6,359,886
Instant Games	2,117,200,000	2,201,022,844	83,822,844
Sales discounts/tickets provided as prizes	(155,100,000)	(144,141,921)	10,958,079
	<u>3,601,800,000</u>	<u>3,634,153,177</u>	<u>32,353,177</u>
Other revenues			
Forfeited prizes	35,500,000	48,868,631	13,368,631
Miscellaneous	1,500,000	1,634,748	134,748
Total operating revenues	<u>3,638,800,000</u>	<u>3,684,656,556</u>	<u>45,856,556</u>
Operating expenses			
Prize expenses	2,183,573,700	2,209,064,696	(25,490,996)
Retailer commissions	209,259,330	213,167,242	(3,907,912)
Instant ticket vendor printing fees	25,745,152	27,670,944	(1,925,792)
Gaming system vendor fees	39,029,550	39,672,435	(642,885)
Northstar NJ management fee	5,609,000	5,610,000	(1,000)
Northstar NJ manager expenses	19,200,000	15,339,888	3,860,112
Northstar NJ advertising & marketing expenses	28,000,000	27,946,787	53,213
Administration expenses	14,734,000	14,154,300	579,700
Multi-state fees	150,000	85,722	64,278
Drawing broadcast fees	500,000	1,136,409	(636,409)
Bad debt expense	625,000	-	625,000
Instant ticket enhancement/license fees	1,200,000	-	1,200,000
Total operating expenses	<u>2,527,625,732</u>	<u>2,553,848,424</u>	<u>(26,222,692)</u>
Operating income	<u>1,111,174,268</u>	<u>1,130,808,132</u>	<u>19,633,864</u>
Non-operating revenue	<u>1,000,000</u>	<u>538,226</u>	<u>(461,774)</u>
Income before transfer	<u>1,112,174,268</u>	<u>1,131,346,358</u>	<u>19,172,090</u>
Northstar NJ incentive payment	(15,480,278)	(19,314,696)	(3,834,418)
Lease Amortization	-	125,452	(125,452)
Income available for transfer	<u>1,096,693,990</u>	<u>1,112,157,114</u>	<u>15,463,124</u>
Transfers out - contributions for state aid to education and state institutions	<u>1,096,000,000</u>	<u>1,111,000,000</u>	<u>15,000,000</u>
Change in net position	693,990	1,157,114	463,124
Net position, beginning of year (as restated)	133,899	133,899	-
Net position, end of year	<u>\$ 827,889</u>	<u>\$ 1,291,011</u>	<u>\$ 463,122</u>

See independent auditors' report.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

SCHEDULE OF NET POSITION

As of June 30, 2022			
	Treasury	Pension Fund L	Total
ASSETS			
<u>Current Assets:</u>			
Cash	\$ -	\$ 159,898	\$ 159,898
Accounts receivable, net of allowance for doubtful accounts of \$2,659,665 and \$2,962,599 in 2022 and 2021, respectively	(202,366)	41,517,646	41,315,280
Deferred Expenses	1,105,500	595,952	1,701,452
Investments:			
Deposit Fund Contracts	20,707,704	660,000	21,367,704
State of New Jersey Cash Management Fund	-	245,666,525	245,666,525
Total current assets	21,610,838	288,600,021	310,210,859
<u>Non Current Assets:</u>			
Investments - deposit fund contracts	175,597,596	9,849,493	185,447,089
Right of Use Asset	-	616,135	616,135
Total non-current assets	175,597,596	10,465,628	186,063,224
Total Assets	\$ 197,208,434	\$ 299,065,649	\$ 496,274,083
LIABILITIES			
<u>Current Liabilities:</u>			
Accounts payable and accrued expenses	\$ 60,253	\$ 55,131,339	\$ 55,191,592
Obligation for unpaid prize awards	-	105,402,741	105,402,741
Installment prize awards	20,707,704	660,000	21,367,704
Lease Payable	-	583,202	583,202
Due to State Of New Jersey - Treasury Out	-	126,000,000	126,000,000
Total current liabilities	20,767,957	287,777,281	308,545,238
<u>Non Current Liabilities:</u>			
Compensated absences	-	740,783	740,783
Lease Payable	-	249,958	249,958
Installment prize awards	175,597,596	9,849,493	185,447,089
Total non current liabilities	175,597,596	10,840,234	186,437,830
Total Liabilities	196,365,553	298,617,516	494,983,069
NET POSITION			
Restricted for prize awards or contributions to State	500,000	1,130,204	1,630,204
Unrestricted	342,881	(682,071)	(339,190)
Total Net Position	\$ 842,881	\$ 448,133	\$ 1,291,013

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Year Ended June 30, 2022		
	Treasury	Pension Fund L	Total
Operating revenues			
Ticket Sales			
Pick 3 Fireball	\$ -	\$ 432,405,725	\$ 432,405,725
Pick 4 Fireball	-	274,862,465	274,862,465
Jersey Cash 5 Xtra	-	157,439,813	157,439,813
Pick 6 Double Play	-	62,868,070	62,868,070
CASH4LIFE Doubler	-	58,975,403	58,975,403
Mega Millions	-	147,238,717	147,238,717
Powerball	-	241,001,378	241,001,378
Quick Draw	-	112,115,435	112,115,435
Fast Play	-	40,180,302	40,180,302
Raffle	-	4,025,060	4,025,060
Cash Pop	-	46,159,886	46,159,886
Scratch-offs (instant games)	-	2,201,022,844	2,201,022,844
Sales discounts	-	(144,141,921)	(144,141,921)
Total ticket sales	-	3,634,153,177	3,634,153,177
Other revenues			
Forfeited prizes	-	48,868,631	48,868,631
Miscellaneous	660,795	973,953	1,634,748
Total operating revenues	660,795	3,683,995,761	3,684,656,556
Operating expenses			
Prize expenses	-	2,209,064,696	2,209,064,696
Retailer commissions	50,752	213,116,490	213,167,242
Instant ticket vendor printing fees	-	27,670,944	27,670,944
Gaming system vendor fees	-	39,672,435	39,672,435
Northstar NJ management fee	-	5,610,000	5,610,000
Northstar NJ manager expenses	-	15,339,888	15,339,888
Northstar NJ advertising and marketing expenses	-	27,946,787	27,946,787
Administration expenses	-	14,154,300	14,154,300
Multi-state fees	-	85,722	85,722
Drawing broadcast fees	-	1,136,409	1,136,409
Bad debt expense	-	-	-
Total operating expenses	50,752	2,553,797,672	2,553,848,424
Operating income	610,043	1,130,198,089	1,130,808,132
Non-operating revenue			
Interest	-	538,226	538,226
Income before transfers out	610,043	1,130,736,315	1,131,346,358
Northstar NJ incentive payment	-	(19,314,696)	(19,314,696)
Lease Amortization	-	125,452	125,452
Income available for transfer	610,043	1,111,547,072	1,112,157,115
Transfers out			
Contributions to pensions	-	1,111,000,000	1,111,000,000
Total transfers out	-	1,111,000,000	1,111,000,000
Changes in net position	610,043	547,072	1,157,115
Net position, beginning of year (as restated)	232,838	(98,939)	133,898
Net position, end of year	\$ 842,881	\$ 448,133	\$ 1,291,013

See independent auditors' report.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

SCHEDULES OF SCRATCH-OFFS (INSTANT GAMES) REVENUES

	Years Ended June 30,	
	2022	2021
100X THE CASH	\$ 118,300,120	\$ -
\$3,000,000 PLATINUM CLUB	100,372,380	-
RAGING HOT 7s	94,248,570	94,401,780
\$3,000,000 MEGA BUCKS	92,953,440	121,508,890
\$3,000,000 ULTIMATE RICHES	67,993,830	130,284,700
50X THE CASH	62,701,380	-
EXTREME CASH	57,991,480	21,560,740
\$1,000,000 GOLD CLUB	54,554,000	-
\$1,000,000 SPECTACULAR	54,415,000	-
WIN EITHER \$100 OR \$200	53,474,060	-
MULTIPLIER MANIA	48,277,450	10,037,760
CROSSWORD BONANZA	47,856,760	-
BLAZING HOT 7S	46,197,940	48,105,500
\$1,000,000 RICHES	45,401,680	62,987,340
CROSSWORD BONANZA	42,790,680	-
CROSSWORD	40,369,311	-
CROSSWORD BONANZA	40,235,480	7,615,440
\$500,000 SILVER CLUB	38,664,820	-
\$1,000,000 SPECTACULAR	33,822,710	61,419,160
\$250,000 CROSSWORD	32,831,160	-
CASH BLAST	29,950,020	-
\$1,000,000 DIAMOND SPECTACULAR	27,257,880	-
SUPER 50X	26,984,790	21,010,590
\$50 AND \$100 BLOWOUT	26,429,270	-
SUPER CROSSWORD	25,826,025	-
CROSSWORD	25,528,104	15,455,502
\$500 FRENZY	25,436,700	-
SUPER CROSSWORD	25,350,740	-
20X THE CASH	25,234,085	-
SCORCHING HOT7S	23,692,360	34,681,270
\$100,000 BANKROLL BINGO	23,208,330	-
BIG MONEY SPECTACULAR	22,331,718	-
WIN FOR LIFE	21,654,882	-
HIGH CARD POKER	21,623,040	-
SUPER CROSSWORD	20,288,490	-
BINGO TIMES 10	20,066,705	-
BIG MONEY SPECTACULAR	19,697,130	-
\$500 FRENZY	18,163,395	-
\$250,000 CROSSWORD	17,335,630	-
CASH PLUS	17,319,225	-
HOLIDAY DELIGHT	17,253,920	-
\$250,000 CROSSWORD	17,235,150	-
\$250,000 CROSSWORD	16,962,010	-
HIT \$2,000!	16,840,960	38,705,390
THE BIG SPIN	16,614,975	-
WIN FOR LIFE	16,547,424	20,863,731
\$200,000 COPPER CLUB	16,026,135	-
MONEY VAULT	15,900,215	-

See independent auditors' report.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

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

	Years Ended June 30,	
	2022	2021
LOTERIA	15,544,965	-
CROSSWORD	15,437,571	-
BIG MONEY SPECTACULAR	14,746,738	9,333,572
RED 7'S DOUBLER	14,595,325	-
SUPER CROSSWORD	14,451,365	11,827,065
LOTERIA GRANDE	13,787,765	-
WHEEL OF FORTUNE	13,177,920	-
100X THE MONEY BONUS	13,128,300	81,526,190
10X THE CASH	13,098,688	-
LOTERIA GRANDE	12,914,175	9,203,805
LADY LUCK MULTIPLIER	12,008,310	8,787,855
HOLIDAY LUCKY TIMES 10	11,783,514	-
LOOSE CHANGE	11,423,921	1,295,099
JUMBO BUCK	10,763,175	-
BEAN BAG BUCKS	10,325,250	3,341,210
\$10,000 TITANIUM CLUB	9,448,434	-
SUPER 8'S	9,411,640	-
QUICK \$50s	9,349,710	-
\$500,000 RICHES	9,143,740	49,165,910
EMERALD 8'S	8,980,408	-
HIGH CARD POKER	8,974,685	16,472,115
\$100 DOUBLER	8,581,330	-
LOTERIA	8,550,546	-
SUPER TIC TAC TOE BONUS	8,526,920	14,212,945
24 KARAT GOLD	8,300,100	14,471,905
FLAMING HOT 7S	7,255,935	17,353,910
QUICK 7s	7,185,325	-
\$500,000 FORTUNE	6,989,810	32,343,650
\$90,000,000 PLATINUM PAYOUT	6,863,580	29,446,180
WILD 10'S	6,382,810	12,696,280
WILD CASH	6,097,698	-
FESTIVE \$50s	5,934,732	-
DAZZLING DIAMOND SPECTACULAR	5,878,500	18,785,620
DIAMONDS AND GOLD DOUBLER	5,536,010	3,036,746
SUMMER FUN	5,485,854	1,240,354
\$250,000 CROSSWORD	5,268,160	11,925,480
CASH BLAST	4,770,090	25,268,600
CROSSWORD BONANZA	4,692,900	-
BIRTHDAY SURPRISE	4,603,622	1,001,384
HOT 7S	4,508,606	8,642,434
\$500 FRENZY	3,875,670	21,404,320
SUPER TRIPLE 777	3,699,490	17,510,715
\$52,000,000 GOLD PAYOUT	3,429,950	12,497,080
LOTERIA	3,409,581	11,981,115
CROSSWORD BONANZA	3,331,900	43,285,700
CASH LINE BINGO	3,038,379	13,414,868
CASH	3,012,495	13,394,614
BINGO BONUS SQUARE	2,846,425	-

See independent auditors' report.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

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

	Years Ended June 30,	
	2022	2021
CASH CLIMB	2,828,258	5,816,552
MONEY BAG MULTIPLIER	2,172,394	8,971,282
\$100,000 BINGO TRIPLER	2,160,150	18,001,370
RUBY/EMERALD/SAPPHIRE MINE 20X	2,048,440	14,831,323
MONEY STASH	1,916,458	6,930,170
POWER 5s	1,642,495	3,486,605
DIAMOND RICHES	1,486,885	4,431,780
LUCKY TIMES 20	1,441,055	3,066,452
\$10,000 BALLOONING BUCKS	1,309,496	-
BIG MONEY SPECTACULAR	1,246,736	-
\$250,000 CROSSWORD	1,185,600	-
ROSES & RICHES	1,153,998	7,402,456
SUPER MONEY MULTIPLIER	1,046,550	1,695,470
DIAMONDS AND DOLLARS	981,505	1,652,455
LUCKY STARS	902,414	7,232,576
CROSSWORD BONANZA	867,960	46,594,714
MONEY MULTIPLIER	843,266	2,069,037
\$250,000 CROSSWORD	644,820	16,438,130
SUPER CROSSWORD	604,230	25,057,620
SUPER 50	571,250	31,815,850
POCKET CHANGE	564,551	7,673,685
QUICK 7'S	388,178	-
7-11-21 10X	340,716	8,757,208
\$20,000 RICHES	312,634	13,214,514
FAST MONEY	294,434	844,238
BIG MONEY SPECTACULAR	239,814	24,512,848
\$200,000 RICHES	214,040	24,612,300
CROSSWORD	190,464	41,695,734
HIT \$500!	147,280	15,238,895
RUBY RED RICHES	117,550	821,380
LOTERIA GRANDE	85,585	21,599,135
HAPPY HOLIDAYS	71,796	10,089,651
\$250,000 CROSSWORD	56,330	17,334,940
BIRTHDAY SURPRISE	54,710	3,867,949
INSTANT CASH MILLIONAIRE	47,960	13,977,980
-7-	26,295	10,859,150
MONEY MADNESS	23,170	5,643,179
\$1,000,000 SPECTACULAR	21,540	28,277,534
LOTERIA	17,001	13,961,921
BINGO BONUS SQUARE	16,590	14,679,475
7 (THEME)	12,025	906,325
WIN FOR LIFE	11,274	17,179,661
DOUBLE MATCH	10,660	8,994,060
QUICK \$100s	10,096	7,038,988
FULL OF \$500s	9,955	26,430,310
SUPER CROSSWORD	9,800	26,867,106
LOVE TO WIN \$50	8,544	1,525,935
HAPPY HOLIDAYS	8,315	16,548,961

See independent auditors' report.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

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

	Years Ended June 30,	
	2022	2021
HIGH CARD POKER	7,675	21,001,595
50X THE MONEY BONUS	6,120	27,913,570
POCKET CHANGE	4,796	7,710,613
HAPPY HOLIDAYS	4,428	5,492,490
\$250,000 CROSSWORD	3,450	16,574,475
BIG MONEY SPECTACULAR	3,392	21,948,312
WIN FOR LIFE	3,000	707,331
WINTER WISHES	-	899,656
HIT \$50!	-	319,623
\$8,000,000 COPPER PAYOUT	-	209,258
\$500 FRENZY	-	143,635
SUPER CROSSWORD	-	84,391
HOLIDAY LUCKY BONUS	-	48,825
\$250,000 CROSSWORD	-	47,090
\$1,000,000 SPECTACULAR	-	12,228
BIG MONEY SPECTACULAR (M)	-	11,699
EMERALD 8s	-	9,776
THE VOICE	-	4,720
BACKSTAGE PASS TO CASH	-	2,524
SUPER CROSSWORD	-	1,725
\$250,000 CROSSWORD	-	980
\$1,000,000 LUCKY 7S	-	(10)
MONEY MULTIPLIER	-	(138)
BIG MONEY SPECTACULAR	-	(168)
LOOSE CHANGE	-	(201)
LOOSE CHANGE (G)	-	(203)
CASH BLAST	-	(300)
LOTERIA	-	(300)
SUPER CROSSWORD	-	(300)
QUICK \$50s	-	(300)
SUPER TIC TAC TOE	-	(411)
JERSEY CASH BLOWOUT	-	(610)
SUPER CROSSWORD	-	(655)
FAST CASH	-	(724)
\$250,000 CROSSWORD (T)	-	(910)
\$250,000 CROSSWORD	-	(1,210)
CROSSWORD (CC)	-	(1,704)
\$150K POKER RICHES	-	(1,895)
\$500 FRENZY	-	(2,300)
\$5,000,000 LUCKY 7s	-	(2,760)
HOLIDAY LUCK	-	(2,801)
BINGO PLUS	-	(3,135)
BIG MONEY SPECTACULAR	-	(3,978)
BIRTHDAY SURPRISE	-	(5,588)
MONEY ROLL	-	(6,714)
DOUBLE MATCH	-	(8,876)
MEGA CROSSWORD	-	(9,580)
LOTERIA (H)	-	(10,761)

See independent auditors' report.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

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

	Years Ended June 30,	
	2022	2021
BINGO BONUS SQUARE	-	(13,495)
LOTERIA	(87)	691,091
CASH BLAST	(300)	507,880
WILD TIME MULTIPLIER	(300)	480,565
LADY LUCK BONUS	(300)	402,960
CROSSWORD	(300)	392,205
HOLIDAY LUCKY TIMES 10	(300)	194,067
LOOSE CHANGE	(400)	762,623
\$1,000,000 GOLD RUSH	(600)	2,422,980
HIGH CARD POKER	(600)	909,970
\$250,000 CROSSWORD	(600)	521,602
\$2,000,000 LUCKY 7S	(800)	19,390,900
\$100,000 BINGO MULTIPLIER	(805)	2,552,140
\$18,000,000 SILVER PAYOUT	(830)	1,114,215
LOOSE CHANGE	(859)	736,417
SUPER CROSSWORD	(905)	3,753,828
SUPER CROSSWORD	(1,190)	26,449,470
BIG MONEY SPECTACULAR	(1,202)	2,170,748
SUMMER LUCKY TIMES 10	(1,250)	399,636
2020 CASH CELEBRATION	(1,290)	1,198,886
\$25,000 CASH LINES	(1,380)	2,810,354
\$250,000 CROSSWORD	(1,500)	6,398,170
MEGA CROSSWORD	(1,600)	1,584,495
LUCKY TIMES 50	(1,730)	3,357,860
CROSSWORD	(1,860)	27,573,040
\$250,000 CROSSWORD	(2,100)	16,722,990
BINGO GOLD	(2,193)	4,440,948
HIT \$200!	(2,495)	2,578,350
MONEY MATCH	(2,765)	1,251,850
DOUBLE DOLLAR BINGO	(3,144)	3,348,183
DOUBLE MATCH BONUS	(3,445)	1,449,756
10X THE MONEY BONUS	(3,778)	3,129,898
TIC TAC TOE DOUBLER	(4,012)	769,385
20X THE MONEY BONUS	(4,615)	10,005,348
\$500 FRENZY	(5,090)	9,073,039
\$3,000,000 CASH OUT	(5,175)	19,617,401
\$200 MILLION CASH BONANZA	(5,490)	15,115,790
LUCKY 7s	(7,384)	2,111,266
FAST CASH	(8,340)	24,037,390
MEGA CROSSWORD	(12,520)	19,487,835
200X THE MONEY BONUS	(14,550)	48,412,386
PRIOR YEAR GAME	(30,776)	(4,024)
	<u>\$ 2,201,022,844</u>	<u>\$ 2,183,539,800</u>

See independent auditors' report.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

SCHEDULES OF ADMINISTRATIVE EXPENSES

	Years Ended June 30,	
	2022	2021
Salaries	\$ 6,349,667	\$ 5,975,199
Fringe benefits	3,869,986	3,074,443
Printing and office supplies	47,734	62,816
Vehicular supplies	699	1,708
Household and clothing	18,598	4,101
Travel	55,731	36,158
Telephone	137,960	142,950
Postage	42,941	37,022
Data processing	682,978	585,603
Household and security	235,837	282,507
Professional services	940,848	614,771
Other professional services	420,511	263,746
Data processing - OIT	84,696	159,597
Maintenance - building and grounds	18,959	9,133
Maintenance - office equipment	12,548	6,295
Rent - building and grounds	875,337	851,760
Central motor pool	55,906	64,604
Other equipment	238,175	24,111
Information processing equipment	18,996	967
Amortization	46,195	-
Total administrative expenses	<u>\$ 14,154,300</u>	<u>\$ 12,197,492</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
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, 2022, 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 and have issued our report thereon dated February 7, 2023.

Report on 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") as a basis for determining 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 and therefore, material weakness or significant deficiencies may exist that were not identified. 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 or significant deficiencies may exist that were not 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)**

Report on 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 financial statements. 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 Division of State Lottery'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 Division of State Lottery's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mercadion, P.C.

Certified Public Accountants

February 7, 2023

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

SCHEDULE OF CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None reported.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

None reported.