

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

Financial Statements
and Supplementary Information

June 30, 2021

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

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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, 2021 and 2020. 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 \$3.684 billion in fiscal year 2021. The net proceeds to the State totaled \$1.105 billion. Sales increased 14.6% from fiscal year 2020 to fiscal year 2021, and the contribution increased 8.9%, respectively. Prizes awarded to New Jersey Lottery players, the Lottery's largest expense item, totaled \$2.245 billion, and the New Jersey Lottery paid \$214 million in commissions to our network of almost 7,000 retailers.

The Division of State Lottery's financial position at June 30, 2021 and 2020, consisted of total assets of \$483 million and \$521 million, respectively, and total liabilities of \$482 million and \$519 million, respectively. A substantial portion of the asset and liability amounts for the year ended June 30, 2021, 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, 2021 and 2020, were \$219 million and \$229 million, respectively. Net position decreased from \$1,503,623 in fiscal year 2020 to \$476,375 for fiscal year 2021.

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 Xtra
- Mega Millions/Megaplier
- Powerball/Powerplay
- CASH4LIFE Doubler
- Fast Play
- Cash Pop
- Quick Draw
- 5 Card Cash All In (sales for this game were permanently suspended in May 2020)

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. Because of the 30-year duration of the LECA, a requirement of the law is that the Lottery be re-valued every 5 years. The first such re-valuation is scheduled for fiscal year 2022.

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 2021 and consequently is owed an incentive payment by the Division of State Lottery of \$23,373,282. Northstar did not meet the next income targets under the contract for fiscal year 2020 and consequently paid the Division of State Lottery \$19,915,065.

FINANCIAL STATEMENTS

The Division of State Lottery's financial statements include statements of net position as of June 30, 2021 and 2020, statements of revenues, expenses and changes in net position for years ended June 30, 2021 and 2020, and statements of cash flows for years ended June 30, 2021 and 2020. 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 2021 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 2021-2020	% Change 2021-2020
	2021	2020	2019		
Current Assets	\$ 285	\$ 315	\$ 286	\$ (30)	(9.6%)
Deposit Fund Contracts	198	206	213	(8)	(4.1%)
Total Assets	483	521	499	(38)	(7.4%)
Current Liabilities	284	313	284	(29)	(9.4%)
Non-Current Liabilities	198	206	214	(8)	(3.7%)
Total Liabilities	482	519	498	(37)	(7.1%)
Restricted Net Position	1.2	1.9	1.5	(0.7)	(36.1%)
Unrestricted Net Position	(0.7)	(0.4)	(0.7)	(0.3)	84.2%
Total Net Position	\$ 0.5	\$ 1.5	\$ 0.8	(1.0)	(68.2%)

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 \$231 million and \$241 million at June 30, 2021 and 2020, 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 \$219 million and \$229 million as of June 30, 2021 and 2020, respectively. The Division of State Lottery has annuity investments with eleven insurance companies. The total market value of the United States Treasury securities was \$41 million and \$44 million at June 30, 2021 and 2020, respectively. The annuities due beyond fiscal years 2021 and 2020 total \$198 million and \$206 million, respectively. These represent the non-current assets reported on the Division of State Lottery's statements of net position. Although categorized as an asset, annuities represent an obligation that the Division of State Lottery has to pay the annuitants to fund the monies due to them over a fixed period of time based on the amount of the annuitized jackpot at the time of the "win". The duration of an annuity varies from twenty years to life. Because of the true nature of these annuities, the Division of State Lottery has a fiduciary responsibility to continue to administer these instruments in a responsible and prudent manner. The current amounts due to annuity winners totaled \$22 million and \$23 million as of June 30, 2021 and 2020, respectively.

Non-current liabilities represent annuity prize awards due beyond 2022 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 as follows (in millions):

	June 30,			\$ Change 2021-2020	% Change 2021-2020
	2021	2020	2019		
Restricted (Unclaimed Prize Reserves)	\$ 1.2	\$ 1.9	\$ 1.5	\$ (0.7)	(36.1%)
Unrestricted	(0.7)	(0.4)	(0.7)	(0.3)	84.2%
Total Net Position	<u>\$ 0.5</u>	<u>\$ 1.5</u>	<u>\$ 0.8</u>	(1.0)	(68.2%)

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 2021-2020	% Change 2021-2020
	2021	2020	2019		
Operating revenues					
Ticket sales	\$ 3,684	\$ 3,215	\$ 3,482	\$ 469	14.6%
Forfeited prizes	28	44	45	(16)	(36.8%)
Miscellaneous income	1	1	1	0	22.9%
Total operating revenue	<u>3,713</u>	<u>3,260</u>	<u>3,528</u>	453	13.9%
Operating expenses					
Prize expenses	2,245	1,970	2,087	275	14.0%
Retailer commissions	214	185	198	29	15.8%
Northstar NJ fees and expenses	45	43	47	2	3.7%
Vendor fees	68	59	62	9	14.5%
Administrative expense	13	12	9	1	11.6%
Bad debt expense	1	-	-	1	100.0%
Total operating expenses	<u>2,586</u>	<u>2,268</u>	<u>2,403</u>	318	14.0%
Operating income	<u>1,127</u>	<u>992</u>	<u>1,125</u>	135	13.6%
Non-Operating (expenses) revenue	<u>(23)</u>	<u>24</u>	<u>(20)</u>	(47)	(195.9%)
Income before transfers out	<u>1,104</u>	<u>1,016</u>	<u>1,105</u>	88	8.7%
Operating transfers – State contributions	<u>1,105</u>	<u>1,015</u>	<u>1,105</u>	90	8.9%
(Decrease) increase in net position	<u>\$ (1.0)</u>	<u>\$ 0.7</u>	<u>\$ (0.7)</u>	(2)	246.7%

Total Lottery tickets sales for fiscal year 2021 were \$3.684 billion, a 14.6% increase from fiscal year 2020, when sales were \$3.215 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 \$2.184 billion during fiscal year 2021, an increase of 11.9% from \$1.952 billion in fiscal year 2020. Sales of scratch-offs totaled \$1.952 billion during fiscal year 2020, an increase of 1.0% from \$1.931 billion in fiscal year 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)

Draw games include a wide spectrum of games, including classic New Jersey only games such as Pick 3, Pick 4, and Pick 6, and the multi-state jackpot games Powerball and Mega Millions. In fiscal year 2021, draw game sales totaled \$1.612 billion compared to \$1.336 billion in fiscal year 2020, an increase of 20.6%. The increase in draw game sales was driven by limited entertainment options during the COVID-19 pandemic. The Atlantic City casinos were initially closed but then opened with limited amenities. With many sports operating under reduced schedules or with athletes subject to quarantine protocols, sports betting was a less viable alternative. The multistate jackpot games, Powerball and Mega Millions bounced back from fiscal year 2020 levels. However, sales were still below fiscal year 2019 level when both games experienced several very large jackpots, including a record \$1.530 billion Mega Millions jackpot.

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 \$1.105 billion (30% of net revenues) in fiscal year 2021 and \$1.015 billion (31% of net revenues) in fiscal year 2020.

The Division of State Lottery's largest expense consists of prizes awarded to players. The Division of State Lottery awarded approximately \$2.245 billion in prizes in fiscal year 2021 and approximately \$1.970 billion in fiscal year 2020. Prizes awarded increased in connection with higher sales in fiscal year 2021.

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 \$214 million and \$185 million to our network of nearly 7,000 retailers in fiscal years 2021 and 2020, 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 \$40 million and \$35 million in fiscal years 2021 and 2020, 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 increased proportionally with the increase in sales.

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 and \$24 million, respectively in fiscal years 2021 and 2020.

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 2021 and 2020, 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 \$25 million in fiscal year 2021 and \$22 million in fiscal year 2020. 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 or livestreaming drawings, 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. In fiscal year 2021 these costs increased in order to help drive sales during the year.

The Division of State Lottery's administrative expenses for the fiscal years 2021 and 2020 were \$12 million and \$11 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. 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 2021, the Division of State Lottery had a total of \$23 million in non-operating expenses. This figure includes an incentive payment to Northstar in the amount of \$23.4 million which was offset by \$0.4 million in non-operating revenue consisting entirely of interest earnings. In fiscal year 2020, the Division of State Lottery had a total of \$23.8 million in non-operating revenue, consisting of a \$19.9 million shortfall payment from Northstar, and other non-operating revenue, primarily interest income of \$3.9 million.

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. Since its inception and use beginning in fiscal year 2019, Amendment 4 has reduced the cumulative incentive payment to Northstar by more than \$18 million.

The calculation of the incentive compensation and the shortfall payment for fiscal year 2021 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 2021 of \$1,094,774,507. The actual amount of net income earned in 2021 was \$1,127,431,034 which was greater than the net income target, resulting in an incentive payment.

To calculate the incentive payment, incentive compensation must be calculated. For fiscal year 2021, Amendment 4 set a Base Level Income target of \$900,987,750. 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 2021 this amount was \$7,305,125. Amendment 4 set a Middle Level Income Target of \$1,047,090,250. 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 2021, this amount was \$16,068,157. Thus, the total incentive pay earned by Northstar was \$23,373,282.

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 2021. 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.

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 calculation is outlined in the table below.

	FY 2021
INCENTIVE PAYMENTS BANDS	
Above Base Level, Below Middle Level	5.0%
Above Middle Level, Below Upper Level	20.0%
Operating Income Levels	
Base Level Income	\$ 900,987,750
Middle Level Income	\$1,047,090,250
Lottery Management Agreement NET INCOME	\$1,127,431,034
Incentive Payments	
Above Base, Below Middle	\$7,305,125
Above Middle	<u>\$ 16,068,157</u>
Subtotal Incentive Payment	\$ 23,373,282
High Cap (Actual Net Income X 3%)	<u>\$33,822,931</u>
Total Incentive Payments	<u>\$ 23,373,282</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:

	June 30,			\$ Change 2021-2020	% Change 2021-2020
	2021	2020	2019		
Cash flows from operating activities	\$ 1,135	\$ 1,003	\$ 1,117	\$ 132	13.1%
Cash flows from non-capital financing activities	(1,164)	(982)	(1,100)	(182)	18.5%
Cash flows from investing activities	29	(21)	(17)	50	(240.3%)
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 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, 2021 and 2020, 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, 2021 and 2020, and the 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 18, 2022, 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 18, 2022

BASIC FINANCIAL STATEMENTS

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

STATEMENTS OF NET POSITION

	June 30,	
	2021	2020
ASSETS		
<u>Current Assets:</u>		
Cash	\$ 234,636	\$ 110,946
Accounts receivable, net of allowance for doubtful accounts of \$2,962,599 and \$2,968,845 in 2021 and 2020, respectively	30,092,217	49,493,069
Deferred Expenses	1,375,501	1,688,472
Investments:		
Deposit Fund Contracts	21,786,704	23,235,204
State of New Jersey Cash Management Fund	231,413,298	240,600,765
Total current assets	<u>284,902,356</u>	<u>315,128,456</u>
<u>Non Current Assets:</u>		
Investments - deposit fund contracts	197,614,132	205,791,402
Total non-current assets	<u>197,614,132</u>	<u>205,791,402</u>
Total Assets	<u>\$ 482,516,488</u>	<u>\$ 520,919,858</u>
LIABILITIES		
<u>Current Liabilities:</u>		
Accounts payable and accrued expenses	\$ 52,176,793	\$ 35,555,807
Obligation for unpaid prize awards	104,647,323	90,305,260
Installment prize awards	21,786,704	23,235,204
Due to State of New Jersey	105,085,000	164,000,000
Total current liabilities	<u>283,695,820</u>	<u>313,096,271</u>
<u>Non Current Liabilities:</u>		
Compensated absences	730,160	528,562
Installment prize awards	197,614,134	205,791,402
Total non current liabilities	<u>198,344,293</u>	<u>206,319,964</u>
Total Liabilities	<u>482,040,113</u>	<u>519,416,235</u>
NET POSITION		
Restricted for prize awards or contributions	1,213,203	1,878,623
Unrestricted	(736,827)	(374,999)
Total Net Position	<u>\$ 476,375</u>	<u>\$ 1,503,623</u>

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Years ended June 30,	
	2021	2020
Operating revenues		
Ticket Sales		
Pick 3 Fireball	\$ 453,335,104	\$ 408,839,336
Pick 4 Fireball	290,990,746	261,493,194
Jersey Cash 5 Xtra	180,350,985	133,161,887
Pick 6 Xtra	56,600,770	54,989,015
CASH4LIFE Doubler	59,699,839	56,544,275
Mega Millions	213,755,652	145,670,721
Powerball	175,330,245	125,824,752
Quick Draw	110,769,166	110,265,856
Fast Play	28,838,757	17,125,158
5 Card Cash All In	-	2,773,841
Cash Pop	41,935,464	19,596,060
Scratch-offs (Instant Games)	2,183,539,800	1,952,222,699
Sales Discounts/Tickets Provided as Prizes	(111,532,236)	(73,123,474)
Total Ticket Sales	<u>3,683,614,292</u>	<u>3,215,383,320</u>
Other revenues		
Forfeited prizes	27,788,964	43,746,705
Miscellaneous	1,228,649	934,337
Total operating revenues	<u>3,712,631,905</u>	<u>3,260,064,362</u>
Operating expenses		
Prize expenses	2,245,238,722	1,969,610,589
Retailer commissions	214,255,666	185,196,373
Instant ticket vendor printing fees	27,698,278	24,105,338
Gaming system vendor fees	39,852,995	34,529,381
Northstar NJ management fee	5,494,000	4,484,167
Northstar NJ manager expenses	14,502,188	16,103,452
Northstar NJ advertising and marketing expenses	24,581,610	22,423,746
Administration expenses	12,197,492	10,915,866
Multi-state fees	68,479	68,212
Drawing broadcast fees	1,125,292	527,663
Bad debt expense	548,681	228,536
Total operating expenses	<u>2,585,563,404</u>	<u>2,268,193,323</u>
Operating Income	1,127,068,501	991,871,039
Non-operating revenue	362,533	3,882,201
Income Before Transfers	<u>1,127,431,034</u>	<u>995,753,240</u>
Northstar NJ shortfall (incentive) payment	(23,373,282)	19,915,065
Income available for transfer	1,104,057,753	1,015,668,305
Transfers out -		
Contributions to Pensions	1,105,085,000	1,015,000,000
Contributions to Treasury	-	-
Changes in net position	(1,027,247)	668,305
Net position, beginning of year	1,503,623	835,319
Net position, end of year	<u>\$ 476,375</u>	<u>\$ 1,503,623</u>

See notes to financial statements.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

STATEMENTS OF CASH FLOWS

	Years ended June 30,	
	2021	2020
Cash Flows from Operating Activities		
Sales to customers	\$ 1,643,700,441	\$ 1,396,845,113
Payments for prize awards	(382,326,004)	(284,533,434)
Payments for vendor commissions and fees	(118,805,216)	(106,147,050)
Payments to suppliers	(10,922,660)	(8,625,218)
Other payments	(195,518)	(64,721)
Cash flows from annuity operations		
Annuity receipts	21,765,704	21,889,704
Purchases of annuities	(2,473,211)	-
Payments of annuity prizes	(16,082,262)	(16,295,270)
Net cash from operating activities	<u>1,134,661,275</u>	<u>1,003,069,124</u>
Cash Flows from Non-Capital Financing Activities		
Contributions to State	<u>(1,164,000,000)</u>	<u>(982,000,000)</u>
Cash Flows from Investing Activities		
Cash Management Fund proceeds	1,687,750,000	1,621,151,180
Cash Management Fund purchases	(1,678,202,650)	(1,616,091,925)
Payments from/to Northstar NJ	19,915,065	(26,132,290)
Net cash from investing activities	<u>29,462,415</u>	<u>(21,073,035)</u>
Net change in cash	123,690	(3,911)
Cash, beginning of year	110,946	114,857
Cash, end of year	<u>\$ 234,636</u>	<u>\$ 110,946</u>
Reconciliation of operating income to net cash from operating activities		
Operating Income	\$ 1,127,068,501	\$ 991,871,039
Changes in assets and liabilities		
Accounts receivable	19,400,853	(29,026,769)
Investments - deposit fund contracts	9,625,769	6,042,362
Other assets	315,621	(362,837)
Accounts payable and accrued expenses	(26,667,361)	1,054,188
Obligation for unpaid prize awards	4,716,294	33,504,905
Compensating absences	201,597	(13,764)
Net cash from operating activities	<u>\$ 1,134,661,275</u>	<u>\$ 1,003,069,124</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, 2021 and 2020. The Division of State Lottery's deposits with Wells Fargo are insured by the Federal Deposit Insurance Corporation up to \$250,000.

	June 30,	
	2021	2020
Wells Fargo	\$ 234,136	\$ 110,697
Total	\$ 234,136	\$ 110,697

The New Jersey Cash Management Fund ("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 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, 2021 and 2020:

	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

	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

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, 2021 and 2020, Delaware Life had annuity contracts totaling approximately \$18,363,570 and \$18,737,511, respectively. However, due to the long-term nature of these contracts, the credit quality of the issuer is subject to change.

At June 30, 2021 and 2020, the Division of State Lottery held insurance company annuity contracts issued through eleven insurance companies, totaling \$178,450,234 and \$184,823,881, 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, 2021 and 2020, the Division of State Lottery had \$40,950,602 and \$44,202,724, respectively, in U.S. treasuries included in guaranteed annuity contracts (see 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, 2021 and 2020, 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 payment or alternatively, if they don't meet the net income target, they are assessed a penalty.

For fiscal year 2021, NSNJ met its amended contractual net income target resulting in an incentive payment of \$23,373,282 to NSNJ. 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.

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 \$44,577,798 and \$43,011,365 for the years ended June 30, 2021 and 2020, 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>
2022	\$ 655,750
2023	655,750
2024	273,229
	<u>\$ 1,584,729</u>

Rent expense for office facilities and equipment for the years ended June 30, 2021 and 2020, was \$851,760 and \$879,995, 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, 2021 and 2020, was \$5,456,890 and \$5,644,196, 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, 2021 and 2020, 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 for fiscal year 2020 were impacted, though the exact impact from COVID could not be determined. Although in the ensuing months, some of the mandates have eased, many of these conditions continued into fiscal year 2021. It is unknown how long these conditions will continue to 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, 2021

	<u>Budget (unaudited)</u>	<u>Actual</u>	<u>Variance (unfavorable) favorable</u>
Operating revenues			
Ticket sales			
Pick 3	\$ 414,200,000	\$ 453,335,104	\$ 39,135,104
Pick 4	267,700,000	290,990,746	23,290,746
Jersey Cash 5	155,000,000	180,350,985	25,350,985
Pick 6 Lotto	57,300,000	56,600,770	(699,230)
Cash 4 Life	54,000,000	59,699,839	5,699,839
Mega Millions	205,800,000	213,755,652	7,955,652
Powerball	200,700,000	175,330,245	(25,369,755)
Quick Draw	160,000,000	110,769,166	(49,230,834)
Fastplay	27,000,000	28,838,757	1,838,757
Raffle (canceled for FY2021)	10,000,000	-	(10,000,000)
Niche Games (5 Card Cash)	-	-	-
Cash Pop	25,000,000	41,935,464	16,935,464
Instant Games	2,106,300,000	2,183,539,800	77,239,800
Sales discounts/tickets provided as prizes	(116,700,000)	(111,532,236)	5,167,764
	<u>3,566,300,000</u>	<u>3,683,614,292</u>	<u>117,314,292</u>
Other revenues			
Forfeited prizes	41,500,000	27,788,964	(13,711,036)
Miscellaneous	1,500,000	1,228,649	(271,351)
Total operating revenues	<u>3,609,300,000</u>	<u>3,712,631,905</u>	<u>103,331,905</u>
Operating expenses			
Prize expenses	2,172,332,700	2,245,238,722	(72,906,022)
Retailer commissions	205,143,100	214,255,666	(9,112,566)
Instant ticket vendor printing fees	25,612,608	27,698,278	(2,085,670)
Gaming system vendor fees	38,409,000	39,852,995	(1,443,995)
Northstar NJ management fee	5,494,000	5,494,000	-
Northstar NJ manager expenses	17,300,000	14,502,188	2,797,812
Northstar NJ advertising & marketing expenses	28,500,000	24,581,610	3,918,390
Administration expenses	14,282,000	12,197,492	2,084,508
Multi-State fees	150,000	68,479	81,521
Drawing broadcast fees	500,000	1,125,292	(625,292)
Bad debt expense	500,000	548,681	(48,681)
Instant ticket enhancement/license fees	1,200,000	-	1,200,000
Total operating expenses	<u>2,509,423,408</u>	<u>2,585,563,404</u>	<u>(76,139,996)</u>
Operating income	<u>1,099,876,592</u>	<u>1,127,068,501</u>	<u>27,191,909</u>
Non-operating revenue	<u>3,000,000</u>	<u>362,533</u>	<u>(2,637,467)</u>
Income before transfer	<u>1,102,876,592</u>	<u>1,127,431,034</u>	<u>24,554,442</u>
Northstar NJ incentive payment	<u>(18,462,393)</u>	<u>(23,373,282)</u>	<u>4,910,889</u>
Income available for transfer	<u>1,084,414,199</u>	<u>1,104,057,753</u>	<u>19,643,554</u>
Transfers out - contributions for state aid to education and state institutions	<u>1,084,000,000</u>	<u>1,105,085,000</u>	<u>21,085,000</u>
Change in net position	414,199	(1,027,248)	(1,441,447)
Net position, beginning of year	1,503,624	1,503,623	(1)
Net position, end of year	<u>\$ 1,917,823</u>	<u>\$ 476,375</u>	<u>\$ (1,441,448)</u>

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

SCHEDULE OF NET POSITION

		As of June 30, 2021		
ASSETS		Treasury	Pension Fund L	Total
<u>Current Assets:</u>				
Cash		\$ -	\$ 234,636	\$ 234,636
Accounts receivable, net of allowance for doubtful accounts of \$2,962,599 and \$2,968,845 in 2021 and 2020, respectively		(97,516)	30,189,733	30,092,217
Deferred Expenses		1,118,500	257,001	1,375,501
Investments:				
Deposit Fund Contracts		21,126,704	660,000	21,786,704
State of New Jersey Cash Management Fund		-	231,413,298	231,413,298
Total current assets		22,147,688	262,754,668	284,902,356
<u>Non Current Assets:</u>				
Investments - deposit fund contracts		185,967,612	11,646,520	197,614,132
Total non-current assets		185,967,612	11,646,520	197,614,132
Total Assets		\$ 208,115,300	\$ 274,401,188	\$ 482,516,488
LIABILITIES				
<u>Current Liabilities:</u>				
Accounts payable and accrued expenses		\$ 788,146	\$ 51,388,647	\$ 52,176,793
Obligation for unpaid prize awards		-	104,647,323	104,647,323
Installment prize awards		21,126,704	660,000	21,786,704
Due to State Of New Jersey - Treasury Out		-	105,085,000	105,085,000
Total current liabilities		21,914,850	261,780,970	283,695,820
<u>Non Current Liabilities:</u>				
Compensated absences		-	730,160	730,160
Installment prize awards		185,967,612	11,646,522	197,614,134
Total non current liabilities		185,967,612	12,376,681	198,344,293
Total Liabilities		207,882,462	274,157,651	482,040,113
NET POSITION				
Restricted for prize awards or contributions to State		500,000	713,203	1,213,203
Unrestricted		(267,162)	(469,665)	(736,827)
Total Net Position		\$ 232,838	\$ 243,538	\$ 476,375

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Year ended June 30, 2021		
	Treasury	Pension Fund L	Total
Operating revenues			
Ticket Sales			
Pick 3 Fireball	\$ -	\$ 453,335,104	\$ 453,335,104
Pick 4 Fireball	-	290,990,746	290,990,746
Jersey Cash 5 Xtra	-	180,350,985	180,350,985
Pick 6 Xtra	-	56,600,770	56,600,770
CASH4LIFE Doubler	-	59,699,839	59,699,839
Mega Millions	-	213,755,652	213,755,652
Powerball	-	175,330,245	175,330,245
Quick Draw	-	110,769,166	110,769,166
Fastplay	-	28,838,757	28,838,757
5 Card Cash All In	-	-	-
Cash Pop	-	41,935,464	41,935,464
Scratch-offs (instant games)	-	2,183,539,800	2,183,539,800
Sales discounts	-	(111,532,236)	(111,532,236)
Total ticket sales	-	3,683,614,292	3,683,614,292
Other revenues			
Forfeited prizes	-	27,788,964	27,788,964
Miscellaneous	267,126	961,523	1,228,649
Total operating revenues	267,126	3,712,364,779	3,712,631,905
Operating expenses			
Prize expenses	-	2,245,238,722	2,245,238,722
Retailer commissions	3,226	214,252,440	214,255,666
Instant ticket vendor printing fees	-	27,698,278	27,698,278
Gaming system vendor fees	-	39,852,995	39,852,995
Northstar NJ management fee	-	5,494,000	5,494,000
Northstar NJ manager expenses	-	14,502,188	14,502,188
Northstar NJ advertising and marketing expenses	-	24,581,610	24,581,610
Administration expenses	-	12,197,492	12,197,492
Multi-state fees	-	68,479	68,479
Drawing broadcast fees	-	1,125,292	1,125,292
Bad debt expense	-	548,681	548,681
Total operating expenses	3,226	2,585,560,178	2,585,563,404
Operating income	263,900	1,126,804,601	1,127,068,501
Non-operating revenue			
Interest	-	362,533	362,533
Income before transfers out	263,900	1,127,167,134	1,127,431,034
Northstar NJ incentive payment	-	(23,373,282)	(23,373,282)
Income available for transfer	263,900	1,103,793,853	1,104,057,753
Transfers out			
Contributions to pensions	-	1,105,085,000	1,105,085,000
Total transfers out	-	1,105,085,000	1,105,085,000
Changes in net position	263,900	(1,291,147)	(1,027,247)
Net position, beginning of year	(31,062)	1,534,685	1,503,623
Net position, end of year	\$ 232,838	\$ 243,538	\$ 476,375

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

SCHEDULES OF SCRATCH-OFFS (INSTANT GAMES) REVENUES

	Years ended June 30,	
	2021	2020
\$3,000,000 ULTIMATE RICHES	\$ 130,284,700	\$ -
\$3,000,000 MEGA BUCKS	121,508,890	31,390,560
RAGING HOT 7s	94,401,780	-
100X THE MONEY BONUS	81,526,190	51,995,240
\$1,000,000 RICHES	62,987,340	-
\$1,000,000 SPECTACULAR	61,419,160	-
\$500,000 RICHES	49,165,910	-
200X THE MONEY BONUS	48,412,386	210,267,600
BLAZING HOT 7S	48,105,500	-
CROSSWORD BONANZA	46,594,714	-
CROSSWORD BONANZA	43,285,700	-
CROSSWORD	41,695,734	-
HIT \$2,000!	38,705,390	67,999,980
SCORCHING HOT7S	34,681,270	-
\$500,000 FORTUNE	32,343,650	-
SUPER 50	31,815,850	56,496,340
\$90,000,000 PLATINUM PAYOUT	29,446,180	51,790,708
\$1,000,000 SPECTACULAR	28,277,534	46,718,390
50X THE MONEY BONUS	27,913,570	35,731,510
CROSSWORD	27,573,040	13,957,857
SUPER CROSSWORD	26,867,106	-
SUPER CROSSWORD	26,449,470	243,300
FULL OF \$500s	26,430,310	-
CASH BLAST	25,268,600	-
SUPER CROSSWORD	25,057,620	-
\$200,000 RICHES	24,612,300	-
BIG MONEY SPECTACULAR	24,512,848	-
FAST CASH	24,037,390	6,673,500
BIG MONEY SPECTACULAR	21,948,312	1,491,600
LOTERIA GRANDE	21,599,135	-
EXTREME CASH	21,560,740	-
\$500 FRENZY	21,404,320	-
SUPER 50X	21,010,590	-
HIGH CARD POKER	21,001,595	7,276,315
WIN FOR LIFE	20,863,731	-
\$3,000,000 CASH OUT	19,617,401	47,160,950
MEGA CROSSWORD	19,487,835	22,719,660
\$2,000,000 LUCKY 7S	19,390,900	47,064,160
DAZZLING DIAMOND SPECTACULAR	18,785,620	23,140,740
\$100,000 BINGO TRIPLER	18,001,370	-
SUPER TRIPLE 777	17,510,715	48,741,417
FLAMING HOT 7S	17,353,910	-
\$250,000 CROSSWORD	17,334,940	-
WIN FOR LIFE	17,179,661	19,740,555
\$250,000 CROSSWORD	16,722,990	-
\$250,000 CROSSWORD	16,574,475	-
HAPPY HOLIDAYS	16,548,961	-
HIGH CARD POKER	16,472,115	-

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

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

	Years ended June 30,	
	2021	2020
\$250,000 CROSSWORD	16,438,130	-
CROSSWORD	15,455,502	-
HIT \$500!	15,238,895	43,516,770
\$200 MILLION CASH BONANZA	15,115,790	68,031,250
RUBY/EMERALD/SAPPHIRE MINE 20X	14,831,323	4,427,995
BINGO BONUS SQUARE	14,679,475	13,991,499
24 KARAT GOLD	14,471,905	-
SUPER TIC TAC TOE BONUS	14,212,945	-
INSTANT CASH MILLIONAIRE	13,977,980	18,794,380
LOTERIA	13,961,921	1,792,200
CASH LINE BINGO	13,414,868	-
CASH	13,394,614	-
\$20,000 RICHES	13,214,514	-
WILD 10'S	12,696,280	-
\$52,000,000 GOLD PAYOUT	12,497,080	29,715,622
LOTERIA	11,981,115	-
\$250,000 CROSSWORD	11,925,480	-
SUPER CROSSWORD	11,827,065	-
-7-	10,859,150	14,215,060
HAPPY HOLIDAYS	10,089,651	-
MULTIPLIER MANIA	10,037,760	-
20X THE MONEY BONUS	10,005,348	20,027,695
BIG MONEY SPECTACULAR	9,333,572	-
LOTERIA GRANDE	9,203,805	-
\$500 FRENZY	9,073,039	16,927,185
DOUBLE MATCH	8,994,060	-
MONEY BAG MULTIPLIER	8,971,282	-
LADY LUCK MULTIPLIER	8,787,855	-
7-11-21 10X	8,757,208	-
HOT 7S	8,642,434	-
POCKET CHANGE	7,710,613	116,800
POCKET CHANGE	7,673,685	-
CROSSWORD BONANZA	7,615,440	-
ROSES & RICHES	7,402,456	-
LUCKY STARS	7,232,576	-
QUICK \$100s	7,038,988	2,272,152
MONEY STASH	6,930,170	-
\$250,000 CROSSWORD	6,398,170	11,064,180
CASH CLIMB	5,816,552	-
MONEY MADNESS	5,643,179	3,117,015
HAPPY HOLIDAYS	5,492,490	-
BINGO GOLD	4,440,948	12,769,627
DIAMOND RICHES	4,431,780	13,697,556
BIRTHDAY SURPRISE	3,867,949	3,068,806
SUPER CROSSWORD	3,753,828	22,972,415
POWER 5s	3,486,605	16,962,090
LUCKY TIMES 50	3,357,860	16,946,529

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

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

	Years ended June 30,	
	2021	2020
DOUBLE DOLLAR BINGO	3,348,183	8,197,053
BEAN BAG BUCKS	3,341,210	-
10X THE MONEY BONUS	3,129,898	10,653,696
LUCKY TIMES 20	3,066,452	11,185,980
DIAMONDS AND GOLD DOUBLER	3,036,746	-
\$25,000 CASH LINES	2,810,354	14,508,918
HIT \$200!	2,578,350	21,414,672
\$100,000 BINGO MULTIPLIER	2,552,140	18,019,211
\$1,000,000 GOLD RUSH	2,422,980	6,043,370
BIG MONEY SPECTACULAR	2,170,748	21,835,106
LUCKY 7s	2,111,266	6,210,870
MONEY MULTIPLIER	2,069,037	7,112,902
SUPER MONEY MULTIPLIER	1,695,470	5,513,068
DIAMONDS AND DOLLARS	1,652,455	4,375,771
MEGA CROSSWORD	1,584,495	38,187,501
LOVE TO WIN \$50	1,525,935	6,785,726
DOUBLE MATCH BONUS	1,449,756	16,219,987
LOOSE CHANGE	1,295,099	-
MONEY MATCH	1,251,850	3,830,690
SUMMER FUN	1,240,354	-
2020 CASH CELEBRATION	1,198,886	10,238,316
\$18,000,000 SILVER PAYOUT	1,114,215	8,386,319
BIRTHDAY SURPRISE	1,001,384	-
HIGH CARD POKER	909,970	26,751,798
7 (THEME)	906,325	15,170,657
WINTER WISHES	899,656	32,701,858
FAST MONEY	844,238	2,858,934
RUBY RED RICHES	821,380	1,541,070
TIC TAC TOE DOUBLER	769,385	7,937,608
LOOSE CHANGE	762,623	7,155,819
LOOSE CHANGE	736,417	8,711,807
WIN FOR LIFE	707,331	15,161,708
LOTERIA	691,091	15,117,711
\$250,000 CROSSWORD	521,602	17,085,100
CASH BLAST	507,880	25,949,380
WILD TIME MULTIPLIER	480,565	2,547,540
LADY LUCK BONUS	402,960	4,484,660
SUMMER LUCKY TIMES 10	399,636	6,875,214
CROSSWORD	392,205	41,515,476
HIT \$50!	319,623	11,388,312
\$8,000,000 COPPER PAYOUT	209,258	3,551,782
HOLIDAY LUCKY TIMES 10	194,067	12,598,879
\$500 FRENZY	143,635	26,081,059
SUPER CROSSWORD	84,391	27,028,627
HOLIDAY LUCKY BONUS	48,825	16,598,358
\$250,000 CROSSWORD	47,090	17,637,655
\$1,000,000 SPECTACULAR	12,228	20,733,155

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

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

	Years ended June 30,	
	2021	2020
BIG MONEY SPECTACULAR (M)	11,699	24,597,452
EMERALD 8s	9,776	11,755,280
THE VOICE	4,720	839,360
BACKSTAGE PASS TO CASH	2,524	230,188
SUPER CROSSWORD	1,725	26,745,102
\$250,000 CROSSWORD	980	17,519,735
50X THE BUCKS	-	676,330
\$10,000 BONUS	-	370,250
CROSSWORD	-	273,414
\$200,000 LUCKY 7S	-	113,510
\$250,000 CROSSWORD	-	91,360
\$500 FRENZY	-	32,040
WIN FOR LIFE	-	14,784
LOOSE CHANGE (D)	-	13,005
MEGA CROSSWORD	-	12,720
MILLION DOLLAR MULTIPLIER	-	12,370
BINGO TIMES 10	-	11,135
BLACKOUT BINGO	-	10,617
\$200,000 GOLD RUSH	-	10,065
HOLIDAY LUCKY TIMES 10	-	6,880
HOT RICHES	-	4,630
\$250,000 CROSSWORD	-	4,240
\$20,000 LUCKY 7S	-	3,704
SUPER CROSSWORD	-	3,045
HOLIDAY BUCKS	-	1,400
BIG MONEY SPECTACULAR	-	420
\$250,000 CROSSWORD	-	(30)
MEGA CROSSWORD	-	(40)
CASH BASH	-	(40)
WIN FOR LIFE	-	(126)
LOOSE CHANGE	-	(226)
CROSSWORD	-	(300)
7	-	(300)
10X THE BUCKS	-	(314)
\$500,000 RICHES	-	(380)
LOOSE CHANGE	-	(400)
MONEY VAULT	-	(435)
DIAMONDS AND DOLLARS	-	(510)
BIG MONEY SPECTACULAR	-	(600)
HOLIDAY LOOSE CHANGE	-	(640)
FAST MONEY	-	(656)
\$250,000 CROSSWORD	-	(790)
100 X THE BUCKS	-	(820)
INSTANT BINGO	-	(1,220)
BIRTHDAY SURPRISE	-	(1,334)
SUPER CROSSWORD	-	(1,440)
SUMMER LUCKY TIMES 10	-	(1,482)

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

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

	Years ended June 30,	
	2021	2020
\$250,000 CROSSWORD	-	(1,650)
\$20,000 GOLD RUSH	-	(2,296)
CROSSWORD	-	(2,346)
LOTERIA	-	(2,418)
PINK DIAMOND BINGO	-	(2,425)
\$5,000,000 FORTUNE	-	(2,490)
DOUBLE WIN	-	(2,667)
\$1,000,000 SPECTACULAR	-	(3,000)
LUCKY TIMES 20	-	(3,925)
HIGH CARD POKER	-	(4,385)
MONEY ROLL	-	(5,202)
\$1,000,000 LUCKY 7S	(10)	2,802,290
MONEY MULTIPLIER	(138)	629,962
BIG MONEY SPECTACULAR	(168)	346,727
LOOSE CHANGE	(201)	512,960
LOOSE CHANGE (G)	(203)	4,743,663
CASH BLAST	(300)	1,130,310
QUICK \$50s	(300)	222,616
SUPER CROSSWORD	(300)	155,155
LOTERIA	(300)	89,965
SUPER TIC TAC TOE	(411)	914,908
JERSEY CASH BLOWOUT	(610)	2,426,120
SUPER CROSSWORD	(655)	11,510,820
FAST CASH	(724)	147,847
\$250,000 CROSSWORD (T)	(910)	2,109,034
\$250,000 CROSSWORD	(1,210)	16,177,085
CROSSWORD (CC)	(1,704)	28,237,285
\$150K POKER RICHES	(1,895)	2,841,780
\$500 FRENZY	(2,300)	6,940,552
\$5,000,000 LUCKY 7s	(2,760)	8,285,984
HOLIDAY LUCK	(2,801)	4,660,997
BINGO PLUS	(3,135)	2,655,858
BIG MONEY SPECTACULAR	(3,978)	15,522,156
PRIOR YEAR GAME	(4,024)	(500)
BIRTHDAY SURPRISE	(5,588)	2,120,416
MONEY ROLL	(6,714)	2,845,428
DOUBLE MATCH	(8,876)	4,434,914
MEGA CROSSWORD	(9,580)	17,889,138
LOTERIA (H)	(10,761)	11,018,369
BINGO BONUS SQUARE	(13,495)	6,612,180
	<u>\$ 2,183,539,800</u>	<u>\$ 1,952,222,699</u>

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY**SCHEDULES OF ADMINISTRATIVE EXPENSES**

	Years ended June 30,	
	2021	2020
Salaries	\$ 5,975,199	\$ 5,630,432
Fringe benefits	3,074,443	2,387,400
Printing and office supplies	62,816	55,754
Vehicular supplies	1,708	617
Household and clothing	4,101	8,688
Travel	36,158	45,394
Telephone	142,950	108,509
Postage	37,022	35,468
Data processing	585,603	534,659
Household and security	282,507	255,725
Professional services	614,771	462,525
Other professional services	263,746	328,717
Data processing-OIT	159,597	65,561
Maintenance - building and grounds	9,133	9,205
Maintenance - office equipment	6,295	10,096
Rent - building and grounds	851,760	879,995
Central motor pool	64,604	69,349
Other equipment	24,111	19,750
Information processing equipment	967	1,052
Amortization	-	6,970
Total administrative expenses	<u>\$ 12,197,492</u>	<u>\$ 10,915,866</u>

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

SCHEDULE OF NORTHSTAR NJ NET INCOME TARGETS (UNAUDITED)

<u>Year</u>	<u>Fiscal Year</u>	<u>Net Income Target</u>
Year 1 (Stub Year)	2014	\$ 760,897,061
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, 2021, 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 18, 2022.

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. 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 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 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 18, 2022

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.