

2017-2018 Comprehensive

Annual Report





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The New Jersey Lottery is pleased to provide for our residents this comprehensive annual financial report for Fiscal Year 2017 (FY17), ending June 30, 2017 and Fiscal Year 2018 (FY18), ending on June 30, 2018. The New Jersey Lottery is recognized as an industry leader and is among the most successful lotteries operating in the United States and throughout the world.

The New Jersey Lottery continued its long record of success in FY17 with sales of over \$3.18 billion and, in FY18, with sales of nearly \$3.30 billion. In FY17, the Lottery's contribution to the State of New Jersey was \$994 million and in FY18, the contribution was \$1.03 billion. The Lottery awarded nearly \$1.93 billion in prizes in FY17 and paid \$181.9 million in commissions to our network of over 7,000 retailers, which are overwhelmingly made up of small and local businesses. In FY18, winners were paid more than \$1.99 billion in prizes and retailers earned almost \$188.4 million in commissions.

During FY17 and FY18, New Jersey Lottery players celebrated six Pick-6 jackpots, 280 Jersey Cash 5 jackpots, two CASH4LIFE top-prizes and four CASH4LIFE second-tier prizes. But as FY18 came to a close, two huge winners came forward.

One lucky Vernon man was the sole jackpot-winning ticketholder for the March 30, 2018 Mega Millions drawing. The jackpot was valued at \$533 million, the largest ever jackpot-winning ticket sold in New Jersey Lottery history. The ticket was purchased in Riverdale, Morris County.

After the Mega Millions jackpot was hit in New Jersey, local players set their eyes on the next big prize - Powerball. Less than two months later, a player from Little Ferry had the only jackpot winning ticket for the May 19, 2018 Powerball drawing. That jackpot was valued at \$315.3 million.

News of these two jackpot winners was shared around the country, highlighting their incredible life-changing stories and plans for the future and driving public interest in the jackpot games.

The Lottery is a key element of the State's fiscal health and is one of New Jersey's largest sources of revenue. FY18 was the third consecutive year that the Lottery's contribution to support the State's financial obligations increased.

I am pleased to share the results from FY17 and FY18 with the citizens of New Jersey.

James A. Carey, Jr.
Acting Executive Director

REMARKABLE MOMENTS IN FISCAL YEAR 2017



Largest Pick-6 jackpot of the year,
\$8.3 million, sold in Gloucester County.

July
4
2016

August
4
2016

August
8
2016

October
3
2016



New Jersey Lottery launches Spanish website:
NJLottery.com/español.



The first ever Pick-6 10X multiplier is drawn during a promotion.



A nurse from Trenton, in Mercer County, wins the CASH4LIFE top prize of \$1,000 a Day for Life by matching all 5 white balls and the CASH ball.



New Jersey Lottery receives Level 4 Certification, the highest level of achievement in Responsible Gaming from the World Lottery Association.



FIREBALL launches as an add-on to Pick-3 and Pick-4, increasing odds and prizes for players.



A landscaper from Orange wins \$5,000,000 playing the \$5,000,000 Fortune Scratch-Off. (The game was launched 3/6/17.)

November
21
2016

February
27
2017

March
8
2017

June
1
2017



New Jersey Lottery receives "Best Innovation in Responsible Gaming Award" from the World Lottery Association, recognizing newly created responsible gaming advertisements in 2016 that improved the effectiveness of our Responsible Gaming program.



The largest Jersey Cash 5 jackpot of the year, \$1,548,770, is split by two winning tickets.



For the first time, Lottery players can purchase Draw Games as a gift with the Holiday Sampler, which contained vouchers for seven games.

Redeem by February 28, 2017

REMARKABLE MOMENTS IN FISCAL YEAR 2018



New Jersey Lottery launches Quick Draw, a game with drawings every five minutes.



The Mega Millions game is enriched with larger jackpots and increased non-jackpot prizes.

July
17
2017

September
25
2017

October
31
2017

March
9
2018



A winning Pick-6 jackpot ticket worth \$16.4 million is sold in Bergen County.



New Jersey Lottery announces New Jersey's newest Million Dollar Replay Millionaire.



A production manager from Vernon in Sussex County, wins the \$533 million Mega Millions jackpot, the largest jackpot won in New Jersey to date.

March
30
2018

May
14
2018

May
19
2018

May
25
2018



An accountant from Little Ferry in Bergen County, wins the \$315.3 million Powerball jackpot.



Lauren Berman steps up as Lottery Host, replacing Erica Young.



New Jersey Lottery launches the 101 Days of Summer campaign, a player-focused promotion with events and prizes every day of the summer.

WHERE THE MONEY GOES MORE THAN JUST PRIZES

In November 1969, by an overwhelming majority, New Jersey voters approved the nation's third state lottery. The first ticket for the weekly drawing was sold in 1970, and since that first sale, the New Jersey Lottery has returned nearly \$25 billion to support education and institutions in our State.

Our valued players continue to make a difference for residents throughout New Jersey. In Fiscal Year 2017, the Lottery contributed \$994 million to the State, helping fund education and institutions, making everyone in the Garden State a winner. School nutrition programs, higher education services, the Department of Human Services, and the Department of Education have all been beneficiaries of Lottery proceeds.

In July 2017, the New Jersey Legislature passed bipartisan legislation that was signed into law by Governor Christie, creating the Lottery Enterprise Contribution Act (LECA) (Chapter 98 of the Public Laws of 2017). Under the law, State Lottery net proceeds will be used to bolster New Jersey's pension system for teachers, police and fire personnel and other public workers. The first payment to the pension fund took place in Fiscal Year 2018. The LECA will provide ongoing fiscal stability and growth potential to the State's retirement systems until 2047.

In Fiscal Year 2018, the Lottery contributed \$1.03 billion to the State fulfilling its mission of benefitting the citizens of New Jersey through the responsible sale of Lottery products.



The New Jersey Lottery Speaker's Bureau program brings the Lottery message into local communities. The program provides insight into the New Jersey Lottery's operations. Citizens learn first-hand how the revenue generated by the New Jersey Lottery funds State-sponsored educational programs and institutions.

RESPONSIBLE PLAY

The New Jersey Lottery is concerned with the health and well-being of lottery players and non-players alike. The Lottery continues to work to support efforts toward problem gambling education, prevention, and treatment for the adult and youth population of our State.

The Lottery has a longstanding commitment to promoting responsible play and discouraging underage Lottery use. We maintain a partnership with the Council on Compulsive Gambling of New Jersey, Inc., and have served on the Council's Board of Directors since 1999. The Lottery supports the Council through attendance at and sponsorship of their conferences and events.

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

We also received the WLA's prestigious "Best Innovation in Responsible Gaming Award." The Lottery was recognized for the enhancements we made in 2016 to improve the effectiveness of our Responsible Gaming program.



Our newly-created ads included four themes, published quarterly:

"Dream Big. Play Responsibly. Know your Limits"

(Summer 2016 and Summer 2017)

"Some things just aren't a good fit. Lottery tickets aren't child's play"

" (Autumn 2016 and Autumn 2017)

"'Tis the season to gift responsibly. Lottery tickets aren't child's play" TM *(Winter 2016-17 and Winter 2017-18)*

"Lottery Pool Rules. Tips and tricks to keep your pool cool" *(Spring 2017 and Spring 2018)*

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





Forty-three years after its introduction, Pick-3 is New Jersey Lottery's top-selling draw game and sales totaled \$429.6 million in FY17 and \$421.3 million in FY18. New Jersey Pick-3 players won \$215.0 million in FY17, compared to \$211.5 million in FY18. Additionally, retailers earned \$24.1 million in commissions in FY17 and \$23.7 million in FY18. Pick-3 contributed \$179.2 million to the State General Fund in FY17 and \$174.0 million in FY18. Pick-3 is drawn twice daily—midday and evening.



Pick-4 has been a Lottery staple for 41 years and remains a favorite among Lottery players. It is our second highest revenue-producing draw game with FY17 sales of \$273.5 million and FY18 sales of \$267.2 million. New Jersey Pick-4 players won \$137.4 million in FY17 and \$134.8 million in FY18. Additionally, retailers earned \$14.7 million in commissions in FY17, as well as \$14.4 million in FY18. Pick-4 contributed \$116.2 million to the State General Fund in FY17 and \$112.1 million in FY18. Pick-4 is drawn twice daily—midday and evening.

FIREBALL

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



This exciting draw-based jackpot game offers all cash prizes, with jackpots starting at \$75,000. In FY17, Jersey Cash 5 winners claimed more than \$83.6 million in prizes and in FY18, \$78.9 million in prizes were awarded. There were 140 jackpot winning tickets in FY17 and 140 jackpot winning tickets in FY18. Total sales in FY17 were \$165.0 million, with FY18 sales of \$154.2 million. Retailers earned \$8.6 million in commissions in FY17 and \$8.1 million in FY18. Jersey Cash 5 contributed \$69.2 million to the State General Fund in FY17 and \$63.8 million in FY18.



Pick-6 celebrated winners across various prize tiers throughout FY17 and FY18. Nearly 1.73 million winning tickets were validated in FY17, while more than 2 million winning tickets were sold in FY18. Ticketholders claimed more than \$27.2 million in prizes in FY17 and nearly \$32.2 million in FY18. Pick-6 total sales for FY17 were \$52.5 million and \$63.4 million in FY18. Retailers earned \$2.7 million in commissions in FY17 and \$3.3 million in commissions in FY18. Pick-6 contributed \$21.6 million to the State General Fund in FY17 and \$26.3 million in FY18.

Six Pick-6 jackpot winning tickets were sold during the 2017 and 2018 Fiscal Years:

- July 4, 2016 - \$8.3 million
- September 22, 2016 - \$4.5 million
- November 14, 2016 - \$3.4 million
- February 13, 2017 - \$5.2 million
- September 25, 2017 - \$16.4 million
- February 15, 2018 - \$9.6 million



New Jersey started selling tickets for “The Big Game” in May 1999. In 2002, the name of the game was changed to Mega Millions. Currently, Mega Millions is sold by 44 state lotteries, the District of Columbia, and the U.S. Virgin Islands.

In FY17, more than 8.55 million winning Mega Millions tickets were sold in New Jersey and another 5.83 million were sold in FY18.

New Jersey players won \$70.7 million in prizes in FY17 and \$94.7 million in FY18. Mega Millions total of prizes does not include the March 30, 2018 winning jackpot amount. Total sales for FY17 were \$135.5 million and \$180.4 million in FY18. Additionally, retailers earned \$7.0 million in commissions in FY17 and \$9.2 million in FY18. Mega Millions contributed \$55.8 million to the State General Fund in FY17 and \$72.6 million in FY18.

On March 30, 2018, one New Jersey player had the jackpot winning ticket worth \$533 million, the largest jackpot ticket ever sold in New Jersey. Over Fiscal Years 2017 and 2018, there were 15 New Jersey second-prize winners of \$1,000,000 or more.

Starting October 31, 2017, the Mega Millions number matrix was updated to refresh the game and odds. The white ball numbers matrix, previously 1-75, dropped to 1-70, while the Gold Mega Ball numbers matrix, previously 1-15, increased to 1-25. Starting jackpots were increased from \$15 million to \$40 million, which will allow prizes to grow faster overall. Additionally, the change provides better odds to win bigger secondary prizes.

New Jersey Lottery



New Jersey began selling tickets for the multi-state Powerball game on January 31, 2010. Powerball is sold by 44 state lotteries, the District of Columbia, Puerto Rico and the U.S. Virgin Islands.

In FY17, more than 4.09 million winning Powerball tickets were sold in New Jersey, another 4.47 million were sold in FY18.

New Jersey players won an impressive \$102.4 million in FY17 and \$113.7 million in FY18. Powerball total of prizes does not include the May 19, 2018 winning jackpot amount. Total sales for FY17 were \$213.5 million and \$231.9 million in FY18. Other State winners include our retailers, who by offering Lottery products encouraged consumer traffic into their stores and earned \$10.9 million in commissions during FY17 and \$11.9 million in FY18. Additionally, Powerball contributed \$99.5 million to the State General Fund in FY17 and \$101.8 million in FY18.

On May 19, 2018, one New Jersey player had the jackpot winning ticket worth \$315 million. Over Fiscal Years 2017 and 2018, there were 19 New Jersey second-prize winners of \$1,000,000 or more with Power Play.



The multi-state game CASH4LIFE was launched as a New Jersey Lottery and New York Lottery game on June 16, 2014, with drawings held at the New Jersey Lottery studio. Within two years of its launch, five more states had joined the founding states in offering the game, and, by the end of Fiscal Year 2017, Georgia and Florida had joined as well, bringing the total number of participating states to nine.

There were more than 2.64 million winning tickets validated in FY17 and 2.55 million tickets in FY18. Players won nearly \$18.5 million in cash prizes in FY17 and \$21.5 million in FY18. Total sales for FY17 were \$41.0 and FY18 sales were \$41.6 million. Additionally, retailers earned \$2.2 million in commissions in FY17 and \$2.2 million in FY18. CASH4LIFE contributed \$21.2 million to the State General Fund in FY17 and \$17.2 million in FY18.

Over Fiscal Years 2017 and 2018, there were two New Jersey top-prize winners of \$1,000 a day for life and four New Jersey second-prize winners of \$1,000 a week for life.



In August 2015, Fast Play was introduced as a new game innovation. FY17 total sales were \$26.9 million and FY18 total sales were \$29.4 million. New Jersey players won \$18.2 million in FY17 and \$19.6 million in FY18. Additionally, retailers earned \$1.6 million in commissions in FY17 and \$1.7 million in FY18. Fast Play contributed \$7.2 million to the State General Fund in FY17 and \$7.2 million in FY18.

Fast Play offers players quick-play styles, printed on demand from a Lottery terminal. It is the fastest way to win on a computer generated game – no need to select numbers or wait for drawings. To play the game, players just ask the retailer for Fast Play, choose their game, and, if they're lucky, collect prizes up to \$599 instantly. Fast Play features a variety of game styles and themes with unique game boards, symbols, features, and prize structures.



The 5 Card Cash game launched on May 16, 2016 and this poker-themed game offers New Jersey players a unique way to play a lottery game.

In FY17, 5 Card Cash players won \$5.8 million in cash prizes, compared to \$3.1 million in FY18. Total FY17 sales were \$10.5 million and \$5.5 million in FY18. Additionally, retailers earned \$583,515 in commissions in FY17 compared to \$306,143 in FY18. 5 Card Cash contributed \$3.9 million to the State General Fund in FY17 and \$2.2 million in FY18.



In FY18, Quick Draw was introduced as a new keno-style game designed for social spaces with drawings every five minutes. The game launched on July 17, 2017 in select social space retailers before expanding to the entire retailer network for players to enjoy. Quick Draw players won \$32.9 million in prizes in FY18. Total sales were \$53.3 million, and retailer commissions were \$3.1 million. Quick Draw contributed \$15.3 million to the State General Fund.





Total sales for Instant Games in FY17 were \$1.89 billion, and total sales in FY18 were \$1.91 billion. In FY17, New Jersey Lottery players won \$1.25 billion in prizes, and players in FY18 won \$1.25 billion in prizes. Retailers earned \$109.3 million in commissions in FY17 and \$110.6 million in FY18. Instant Games contributed \$420.8 million to the State General Fund in FY17 and \$438.2 million in FY18.

New families of games were introduced in FY17 with the addition of *Lucky 7's* and *Mayhem*. The *Lucky 7's* family of games featured prizes up to \$1,000,000 and the *Mayhem* family offered prizes up to \$200,000. The *Spectacular* game family was expanded with the introduction of the \$1,000,000 *Spectacular* instant game, offering prizes up to \$1,000,000, and the *Platinum Diamond Spectacular*, which offered prizes up to \$2,000,000.

The introduction of the \$200 Million Cash Bonanza Instant Game in FY18 found players vying for prizes up to \$5,000,000. New game families included the *Multiplier* family, *Holiday Games*, and the *Gold Rush* family. The *Multiplier* family included 5x, 10x, 20x, and 50x *The Bucks* allowing players to win up to \$1,000,000. Holiday themed games included *Holiday Spectacular*, giving players matching holiday themed symbols and prizes up to \$200,000. The new *Gold Rush* family offered a classic gold rush theme with prizes up to \$1,000,000.



The Lottery's VIP Club provides club members with daily winning number emails, information about special promotions, Lottery Bonus Zone games and Second Chance promotions. Players can enter non-winning tickets into Second Chance promotions, such as the Million Dollar Replay. The VIP Club is popular among players, free to join, and continues to grow year over year.

The Million Dollar Replay program was introduced in 2000 as a feature of the VIP Club to give Instant Ticker game players a second chance to win big prizes by entering their non-winning instant game tickets into quarterly drawings.

Each quarter, 100 entrants are selected to each win a \$250 prize and a chance at the Grand Prize Drawing with prizes up to \$1,000,000. Excitement for this tournament continues to grow and in FY18 the event was moved from the War Memorial in Trenton to the Asbury Park Convention Hall in Asbury Park to accommodate the larger crowd.

VIP Club promotions awarded players with a variety of prizes including prize packs, concerts, and VIP experiences through the \$20,000 *Hollywood Cash Fantasy* game. Members who entered their non-winning \$20,000 *Hollywood Cash Fantasy* tickets into the drawing had an opportunity to win an all expense paid five-day trip to Hollywood with a guest.

The VIP Club is also home to the Game Changers, a community of New Jersey residents who voluntarily answer surveys, foster discussion about games, and provide opinions and viewpoints on Lottery products. Through the feedback provided by Game Changers, the New Jersey Lottery creates a positive gaming experiences for players.



The FY17 holiday season was the first to feature the Holiday Sampler, a gift voucher offering a \$10 variety of

draw-based games. Players could purchase the voucher for themselves or as a gift, redeemable for one ticket each of a Powerball, Mega Millions, Fast Play, CASH4LIFE, Pick-6 and Jersey Cash 5 ticket.

WINNER
HIGHLIGHTS





WINNING NUMBERS:
03-06-09-17-56-25

May 19, 2018



Anything
can happen in Jersey.

\$ 315,300,000

Pay to the order of Tayeb Souami

Three Hundred Fifteen Million, Three Hundred Thousand and 00/100 Dollars

John M. White
Acting Executive Director



11098912167091771



Anything
can happen in Jersey.

\$5,000/MONTH FOR LIFE

Dollars

MONTH FOR LIFE

Carol Hedinger
Executive Director

11098912167091771



Anything
can happen in Jersey.

\$1,000,000

Pay to the order of

KENNETH W.

Dollars

ONE MILLION AND ⁰⁰/₁₀₀

\$1,000,000 SPECTACULAR!

Carol Hedinger
Executive Director

11098912167091771



STATE OF NEW JERSEY, DEPARTMENT OF THE TREASURY,
DIVISION OF STATE LOTTERY

Financial Statements and Supplementary Information

June 30, 2017



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INTRODUCTION

The following discussion and analysis provides an analytical overview of the financial position and activities of the State of New Jersey, Department of the Treasury, Division of State Lottery (the "Division of State Lottery") for the years ended June 30, 2017 and 2016. 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 et seq. 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 "State Lottery Law" also mandates that a minimum of 30% of gross revenues from ticket sales be allocated for contributions to state aid for education and state institutions N.J.S.A. 5:9-7a (11).

As of June 30, 2017, the Division of State Lottery licensed more than 7,600 retailers throughout the State of New Jersey to act as retailers in the sale of New Jersey Lottery tickets. Lottery retailers receive compensation in the form of commissions on each ticket sold or validated, bonuses and various retailer incentive programs.

On June 20, 2013, a competitively bid 15-year (plus fiscal year 2014 stub year) contract was awarded to Northstar New Jersey, LLC (Northstar NJ) to provide sales and marketing services to the Division of State Lottery for the purpose of increasing lottery sales and net income (net proceeds for state aid for education and state institutions). If contracted net income targets for a given fiscal year are met or exceeded, Northstar NJ will earn incentive compensation. Conversely, if net income targets for a given fiscal year are not met it could result in reduced incentive or a contribution shortfall payment to the Division of State Lottery. In addition to compensation for its sales and marketing efforts, Northstar NJ is reimbursed for certain direct costs it incurs on behalf of the Division of State Lottery.

For the purposes of the incentive compensation calculation, the Division of State Lottery's net income is predicated on income targets contained in the amended Northstar NJ contract (see Schedule of Northstar NJ Net Income Targets). The Division of State Lottery's actual net income for a fiscal year is decreased when Northstar NJ earns an incentive payment and is increased if Northstar NJ is obligated to pay a shortfall payment.

Northstar NJ's first operational year was a stub year; October 1, 2013 through June 30, 2014. The remaining fifteen years (fiscal years 2015 - 2029) of the contract coincide with the Lottery's fiscal year, starting on July 1 and ending on June 30 through the year ending June 30, 2029. The year ended June 30, 2017, was the third full operational year of the contract.

INTRODUCTION (CONTINUED)

Under the terms of the agreement, Northstar NJ is responsible for subcontracting on behalf of the Lottery for service for which the Division of State Lottery previously contracted. Such services include the online terminal network for ticket sales, the warehousing and distribution of instant tickets, printing contracts for instant tickets, and marketing and advertising services.

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:

- Instant Games
- FastPlay (launched in August 2015)
- 5 Card Cash (launched in May 2016)
- Pick 3 (Including Pick 3 Instant Match)
- Pick 4 (Including Pick 4 Instant Match)
- Jersey Cash 5 (Including Jersey Cash 5 Instant Match)
- Pick 6 Xtra Lotto
- Mega Millions
- Powerball
- CASH4LIFE

FINANCIAL HIGHLIGHTS

The Division of State Lottery's financial position at June 30, 2017 and 2016, consisted of total assets of \$516 million and \$553 million, respectively, and total liabilities of \$514 million and \$541 million, respectively. A substantial portion of the asset and liability amounts for the year ending June 30, 2016, 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, 2017 and 2016, were \$254 million and \$253 million, respectively. Net position decreased from \$11.4 million in fiscal year 2016 to \$1.6 million for fiscal year 2017.

FINANCIAL STATEMENTS

The Division of State Lottery's financial statements include statements of net position as of June 30, 2017 and 2016, statements of revenues, expenses and changes in net position for years ended June 30, 2017 and 2016, and statements of cash flows for years ended June 30, 2017 and 2016. The financial statements are prepared in accordance with the accounting principles established by the Governmental Accounting Standards Board.

Statement of Net Position

The statement of net position presents 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:

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

FINANCIAL STATEMENTS (CONTINUED)

Statement of Net Position (Continued)

	June 30,		
	2017	2016	2015
Current Assets	\$ 287	\$ 326	\$ 283
Deposit Fund Contracts	228	227	228
Total Assets	515	553	511
Current Liabilities	285	314	280
Non-Current Liabilities	228	228	229
Total Liabilities	513	542	509
Restricted Net Position	0.8	3.9	1.5
Unrestricted Net Position	0.8	7.5	.3
Total Net Position	\$ 1.6	\$ 11.4	\$ 1.8

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 \$244 million and \$251 million at June 30, 2017 and 2016, 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 \$254 million and \$253 million as of June 30, 2017 and 2016, respectively. The Division of State Lottery has annuity investments with ten (10) insurance companies. The total market value of the United States Treasury securities was \$40 million and \$45 million at June 30, 2017 and 2016, respectively. The annuities due beyond fiscal years 2017 and 2016 total \$228 million and \$227 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 \$26 million and \$25 million as of June 30, 2017 and 2016, respectively.

Non-current liabilities represent annuity prize awards due beyond 2018 and also include the total due for unused vacation and sick leave (compensated absences).

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

	June 30,		
	2017	2016	2015
Restricted (Unclaimed Prize Reserves)	\$ 0.8	\$ 3.9	\$ 1.5
Unrestricted	0.8	7.5	0.3
Total Net Position	\$ 1.6	\$ 11.4	\$ 1.8

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

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

FINANCIAL STATEMENTS (CONTINUED)

Statements of Revenues, Expenses and Changes in Net Position

The results of the Division of State Lottery's operations are presented in the statements of revenues, expenses and changes in net position, which are summarized (in millions) as follows:

	Years Ended June 30,		
	2017	2016	2015
Operating revenues			
Ticket sales	\$ 3,187	\$ 3,290	\$ 3,001
Forfeited prizes	45	34	48
Miscellaneous income	1	2	1
Total operating revenue	3,233	3,326	3,050
Operating expenses			
Prize expenses	1,927	2,002	1,825
Retailer commissions	182	186	170
Northstar NJ fees & expenses	43	44	42
Vendor fees	60	60	54
Administrative expense	9	10	10
Bad debt expense	1	0	1
Total operating expenses	2,222	2,302	2,102
Operating income	1,011	1,024	948
Non-Operating (expenses) revenue	(27)	(28)	13
Income before transfers out	984	997	961
Operating transfers - State contributions	994	987	960
(Decrease) increase in net position	\$ (10)	\$ 10	\$ 1

The Division of State Lottery awarded approximately \$1.927 billion in prize awards in fiscal year 2017 and approximately \$2.002 billion in fiscal year 2016. Over 101 million winning tickets were validated and paid in fiscal year 2017. This amount is a decrease from the 113 million winning tickets which were validated and paid in fiscal year 2016.

The Division of State Lottery's vendors provided critical services to the Division of State Lottery, including the production, warehousing, distribution and accounting for all lottery tickets. The total compensation paid to the Division of State Lottery's vendors and network fees was \$103 million in fiscal year 2017. This amount was paid directly to Northstar NJ for the services it provided or procured on behalf of the Division of State Lottery. Included in the \$103 million paid to Northstar NJ was \$25 million for advertising and marketing costs, \$34 million for gaming system vendor fees, and \$25 million for instant ticket vendor printing fees. In fiscal year 2016, the total compensation paid for the Division of State Lottery's vendors and network fees was \$104 million. Of this amount \$104 million was paid to Northstar NJ including \$25 million for advertising and marketing costs, \$35 million for gaming system vendor fees, and \$24 million for instant ticket vendor printing fees.

FINANCIAL STATEMENTS (CONTINUED)

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

The Division of State Lottery's administrative expenses for the fiscal years 2017 and 2016 were \$9 million and \$10 million, respectively, for each year. These administrative expenses include salaries, auditing services, rent, security, data processing services, office supplies and attorney general fees. The management services contract has shifted advertising and other expenses from the Division of State Lottery to Northstar NJ.

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, Department of the Treasury for state aid for education and state institutions. As a result of various sales initiatives, game enhancements and efficient operations, the Division of State Lottery contributed \$994 million, 31% of net revenues, in fiscal year 2017 and \$987 million, 30% of net revenues, in fiscal year 2016.

During the term of the contract, Northstar NJ'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, incentive compensation is increased in the event that the net income target is exceeded. Furthermore, in the event that actual net income is significantly below the contracted net income target, then the contribution shortfall payment provisions are invoked. Northstar's (amended) net income target for the fiscal year ended June 30, 2017, was \$990,513,343.

The income before transfers operating income for fiscal year 2017 totaled \$1,013 million. In accordance with the amended Northstar contract, a separate calculation is performed to determine the income for the purposes of establishing the incentive/shortfall payment. Northstar NJ's incentive/shortfall payment based on income before transfers of \$1,013 million resulted in an incentive payment of \$29 million.

The total income for fiscal year 2017 totaled \$1,013 million. In accordance with the amended Northstar NJ contract, a separate calculation is performed to determine the income for the purposes of establishing the incentive/shortfall payment. This calculation is outlined in the table below.

INCENTIVE PAYMENTS BANDS	FY 2017
Above Base Level, Below Middle Level	5.0%
Above Middle Level, Below Upper Level	20.0%
Operating Income Levels	
Base Level Income	\$ 821,490,000
Middle Level Income	883,950,000
Lottery Management Agreement NET INCOME	1,013,141,933
Incentive Payments	
Above Base, Below Middle	3,123,000
Above Middle, Below Upper	25,838,387
Total Incentive Payments	\$ 28,961,387

FINANCIAL STATEMENTS (CONTINUED)

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

The amended contract does establish bottom and top caps on Northstar NJ's compensation. In the event that Upper Income Levels are surpassed total compensation to Northstar NJ cannot exceed 3% of operating income for the entire contract year. Conversely, in the event Base Income Levels are not achieved, the contribution shortfall payment cannot exceed 2% of net income. In fiscal year 2017, neither the bottom nor the top cap had to be utilized in the incentive payment calculation.

Statements of Cash Flows

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

	Years Ended June 30,		
	2017	2016	2015
Cash flows provided by operating activities	\$ 993	\$ 1,042	\$ 936
Cash flows used in non-capital financing activities	(964)	(1,017)	(943)
Cash flows (used in) provided by investing activities	(22)	(28)	10
Net increase (decrease) in cash	\$ 7	\$ (3)	\$ 3

SUMMARY

Division of State Lottery management has been working closely with Northstar NJ throughout fiscal year 2017, and looks forward to continuing this innovative partnership going into the fourth full year of the contract.

Before the close of Fiscal 2016, the Division of State Lottery launched 5 Card Cash, a new daily terminal game which is based on the rules of poker. The player receives a ticket containing the images of five playing cards from a traditional fifty-two card deck. If any combination of those five cards contains a winning hand, the player instantly wins a prize ranging in size from \$2.00 to \$5,000.00. For an additional wager, the player may opt to participate in the game's "All In" feature and have a chance to win the progressive jackpot that pays a minimum of \$10,000.00. Every player also has a chance to win at the evening draw when the images of five playing cards are drawn from a draw machine. 5 Card Cash contains the attributes of both an instant and a draw game.

In early Fiscal 2018, the Division of State Lottery will launch Quick Draw, a keno style game where winning numbers are electronically drawn and then displayed on a television screen installed at retail locations. Quick Draw is a social space game. It will be available predominantly in public venues such as bars and restaurants. Players can purchase a Quick Draw play for a \$1.00 minimum up to a \$10.00 maximum. Prizes range from \$1.00 up to \$1,000,000.00 depending on the purchase amount. Quick Draw is unique from other lottery games in the sense that many people can participate and engage with the game simultaneously via the large television screen enhancing interaction in social spaces. The game also provides an opportunity to a new set of businesses which do not currently offer traditional lottery games. At launch in July, four hundred such new retailers were added to the Division of State Lottery's retailer network.

SUMMARY (CONTINUED)

In conjunction with the Fiscal 2018 Appropriations Act, Governor Christie signed the Lottery Transfer Act (Chapter 98 of the Public Law of 2017) into law. The Lottery Transfer Act and the subsequent Memorandum of Lottery Contribution (MOLC) entered into between the State Treasurer and the Division of Investment, effectively transfers the operations of the Lottery and its resulting net revenues to the newly established Pension Fund L for the purposes of providing funding to select units of New Jersey's major public employee pension systems.

Both the legislation and the MOLC require that retained assets and liabilities of the Lottery existing prior to the transfer date (July 1, 2017), not be transferred to Pension Fund L for a thirty-year term. This requirement compels the Division of State Lottery, specifically its Finance Department, to maintain two general ledgers. The pre-existing (or residual) 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 outlines a six month transition period for the 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. Although the Lottery Transfer Act has no direct impact on the Division of State Lottery's financial statements for the year ended June 30, 2017, it is a significant event that will impact the agency's financial statements for years to come.

Other recently passed legislation impacting the Division of State Lottery is the Lottery Courier Law (Chapter 11 of the Public Laws of 2017). This legislation, which went into effect in November 2017, requires the Lottery to promulgate extensive rules and regulations governing the activity of the lottery couriers.

Prior to the passage of this law, services provided by a lottery courier were not regulated anywhere in the United States although a few states were permitting such couriers to operate.

In accordance with the Courier Law, and the subsequently enacted regulations, couriers will be required to maintain certain cyber security and technology standards. The Division of State Lottery will be regularly auditing registered couriers to ensure that they are in compliance with the provisions of the law.

Similar to the Lottery Transfer Act, the Courier Law has no direct impact on the Division of State Lottery's financial statements for the year ended June 30, 2017.

CONTACTING THE DIVISION'S FINANCIAL MANAGEMENT

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



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the State of New Jersey, Department of the Treasury, Division of State Lottery (the "Division of State Lottery") as of and for the years ended June 30, 2017 and 2016, 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, 2017 and 2016, and the respective changes in its financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages one through seven 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 audit was 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, instant game 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, 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 December 19, 2017, 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division of State Lottery's internal control over financial reporting and compliance.

MERCADIEN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

December 19, 2017

STATE OF NEW JERSEY, DEPARTMENT OF THE TREASURY, DIVISION OF STATE LOTTERY
STATEMENTS OF NET POSITION

	2017		June 30, 2016	
ASSETS				
Current Assets				
Cash	\$	7,204,746	\$	84,665
Accounts receivable, net of allowance for doubtful accounts of \$3,109,635 and \$2,224,000 in 2017 and 2016, respectively		8,596,404		46,188,335
Deferred Expenses		1,703,996		2,690,563
Investments:				
Deposit Fund Contracts		25,983,704		25,352,704
State of New Jersey Cash Management Fund		243,886,611		251,134,998
Total current assets		287,375,461		325,451,266
Non-Current Assets				
Investments - deposit fund contracts		228,216,100		227,170,016
Total non-current assets		228,216,100		227,170,016
Total Assets	\$	515,591,561	\$	552,621,282
LIABILITIES				
Current Liabilities				
Accounts payable and accrued expenses	\$	53,558,867	\$	64,235,894
Obligation for unpaid prize awards		72,533,872		120,682,044
Installment prize awards		25,983,704		25,352,704
Due to State of New Jersey - education and state institutions		133,000,000		103,000,000
Total current liabilities		285,076,443		313,270,643
Non-Current Liabilities				
Compensated absences		671,479		733,631
Installment prize awards		228,216,100		227,170,016
Total non-current liabilities		228,887,579		227,903,647
Total Liabilities		513,964,022		541,174,289
NET POSITION				
Restricted for prize awards or contributions for aid to education and state institutions		826,559		3,881,442
Unrestricted		800,980		7,565,551
Total Net Position	\$	1,627,539	\$	11,446,993

See notes to financial statements.

STATE OF NEW JERSEY, DEPARTMENT OF THE TREASURY, DIVISION OF STATE LOTTERY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Years ended June 30,	
	2017	2016
Operating revenues		
Ticket sales		
Pick 3	\$ 429,556,948	\$ 439,627,708
Pick 4	273,452,759	275,200,494
Jersey Cash 5	165,040,813	151,636,143
Pick 6 Lotto	52,446,644	54,632,415
CASH4LIFE	40,950,780	45,760,158
Mega Millions	135,511,285	144,424,092
Powerball	213,478,557	286,003,472
Fastplay	26,904,333	48,388,770
Niche Games (5 Card Cash)	10,512,394	3,064,919
Bonus Draw	35,824	—
Instant Games	1,887,940,043	1,872,915,471
Sales discounts/tickets provided as prizes	(48,920,486)	(31,806,927)
Total ticket sales	3,186,909,893	3,289,846,714
Other revenues		
Forfeited Prizes	45,230,927	33,931,475
Miscellaneous	1,041,713	1,983,565
Total operating revenues	3,233,182,532	3,325,761,753
Operating expenses		
Prize expenses	1,927,302,259	2,001,693,206
Retailer commissions	181,905,365	185,980,265
Instant ticket vendor printing fees	24,876,907	24,467,215
Gaming system vendor fees	34,195,452	35,080,631
Northstar NJ management fee	5,056,829	4,952,335
Northstar NJ manager expenses	13,372,927	13,979,117
Northstar NJ advertising & marketing expenses	24,793,452	24,779,320
Administration expenses	9,418,452	10,134,156
Multi-State fees	42,024	61,239
Drawing broadcast fees	530,291	407,093
Bad debt expense	634,000	110,000
Total operating expenses	2,222,127,958	2,301,644,578
Operating income	1,011,054,574	1,024,117,175
Non-operating revenue	2,087,359	3,155,103
Income before transfers	1,013,141,933	1,027,272,279
Northstar NJ incentive payment	28,961,387	30,623,965
Income available for transfer	984,180,546	996,648,314
Transfers out — contributions for state aid to education and state institutions	994,000,000	987,000,000
Change in net position	(9,819,454)	9,648,314
Net position, beginning of year	11,446,993	1,798,680
Net position, end of year	\$ 1,627,539	\$ 11,446,993

See notes to financial statements.

STATE OF NEW JERSEY, DEPARTMENT OF THE TREASURY, DIVISION OF STATE LOTTERY
STATEMENTS OF CASH FLOWS

	Years ended June 30,	
	2017	2016
Cash Flows from Operating Activities		
Sales to customers	\$ 1,497,304,267	\$ 1,523,781,082
Payments for prize awards	(389,661,085)	(383,423,271)
Payments for vendor commissions and fees	(113,830,053)	(96,561,724)
Payments to suppliers	(10,048,217)	(10,002,023)
Other Payments	(21,584)	—
Cash flows from annuity operations		
Annuity receipts	26,759,204	36,079,204
Purchases of annuities	—	(2,307,648)
Payments of annuity prizes	(17,358,486)	(25,942,860)
Net cash provided by operating activities	993,144,046	1,041,622,759
Cash Flows used in Non-Capital Financing Activities		
Contributions for aid to education and state institutions	(964,000,000)	(1,017,000,000)
Cash Flows from Investment Activities		
Cash Management Fund proceeds	1,194,200,000	1,299,200,000
Cash Management Fund purchases	(1,185,600,000)	(1,342,450,000)
Proceeds (to)/from Northstar NJ	(30,623,965)	15,410,236
Net cash used by investment activities	(22,023,965)	(27,839,764)
Net Increase (Decrease) in cash	7,120,081	(3,217,005)
Cash, beginning of year	84,665	3,301,670
Cash, end of year	\$ 7,204,746	\$ 84,665
Reconciliation of operating income to net cash provided by operating activities		
Operating Income	\$ 1,011,054,574	\$ 1,024,117,175
Bad Debt Expense	634,000	110,000
Changes in assets and liabilities		
Accounts receivable	37,693,678	(29,885,686)
Investments - deposit fund contracts	(1,677,084)	16,214,097
Other assets	986,567	34,213
Accounts payable and accrued expenses	(9,014,449)	2,655,126
Obligation for unpaid prize awards	(46,471,088)	28,367,272
Compensated absences	(62,152)	10,562
Net cash provided by operating activities	\$ 993,144,046	\$ 1,041,622,759

*Some amounts have been reclassified to conform with current year presentation
See notes to financial statements.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The State of New Jersey, Department of the Treasury, 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 Division of State Lottery operates within the Department of the Treasury of the State of New Jersey. The Commission consists of the State Treasurer and six 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 an enterprise fund and include the operations for which the Division of State Lottery is financially accountable and exercises oversight responsibility.

Basis of Accounting

The Division of State Lottery prepares its financial statements using the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred.

In its accounting and financial reporting, the Division of State Lottery follows the pronouncements of the Governmental Accounting Standards Board (“GASB”) and other entities that promulgate accounting principles. GASB Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, establishes the order of priority of pronouncements and other sources of accounting and financial reporting 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.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 collectibility. 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.

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 contributions for aid to education and state institutions 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 instant games.

Unrestricted

The unrestricted net position represents resources available for current operating expenses in compliance with legal and budgetary restrictions.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Revenues from the sale of lottery tickets are recognized as follows:

- “Pick-3”, “Pick-4”, “Jersey Cash 5”, “Pick-6 Lotto”, “Mega Millions”, “Megaplier”, “Powerball”, “Power Play”, “CASH4LIFE”, and “5 Card Cash” games on the drawing date.
- 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.

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 instant games be forfeited. Effective November 21, 1991, the Commission authorized that 70% of forfeited prizes are to be maintained restricted 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 aid education and institutions to be 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 requires no less than 30% of total revenues accruing from ticket sales to be paid to the State Treasury for state aid for education and state institutions.

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 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.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

B. CASH AND INVESTMENTS

The Division of State Lottery adopted GASB Statement No. 40, “*Deposits 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 and the amount exposed to custodial credit risk at June 30, 2017 and 2016. The Division of State Lottery’s deposits with Wells Fargo are insured by the Federal Deposit Insurance Corporation up to \$250,000.

	June 30,	
	2017	2016
Wells Fargo	\$ 7,204,746	\$ 84,665
New Jersey Cash Management Fund	243,886,611	251,134,998
Total	\$ 251,091,357	\$ 251,219,664

The New Jersey Cash Management Fund (“NJCMF”) is a common trust fund administered by the Department of the Treasury, Division of Investment. NJCMF is considered to be an investment trust fund as defined in Governmental Accounting Standards Board (GASB) Statement No. 31. NJCMF funds are not subject to custodial credit risk due to the fact that the funds are held by and in the name of the NJCMF in a segregated trust account with the third-party custodian rather than in the possession of the third-party custodian. Additionally, though the underlying assets and investments of the NJCMF pool are subject to credit risk, the risk is limited by the mix of the credit quality ratings of the assets in the portfolio maintained by NJCMF.

Fair Value Measurements

The Division of State Lottery follows the Fair Value Measurements Topic of the GASB Accounting Standards, which provides a framework for measuring fair value under accounting principles generally accepted in the United States of America.

The Division of State Lottery categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

Fair Value on a Recurring Basis

The table below presents the balances of investments - deposit fund contracts measured at fair value on the statement of net position as of June 30, 2017 and 2016:

B. CASH AND INVESTMENTS (CONTINUED)

	June 30, 2017			
	Total	Level 1	Level 2	Level 3
Annuity Investment Deposit				
Fund Contracts	\$ 254,199,804	\$ 40,328,240	\$ —	\$ 213,871,564
Total	\$ 254,199,804	\$ 40,328,240	\$ —	\$ 213,871,564

	June 30, 2016			
	Total	Level 1	Level 2	Level 3
Annuity Investment Deposit				
Fund Contracts	\$ 252,522,720	\$ 45,382,269	\$ —	\$ 207,140,451
Total	\$ 252,522,720	\$ 45,382,269	\$ —	\$ 207,140,451

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 draw game and Win for Life instant games. U.S. government securities fund term annuity prizes for games such as Pick 6 Xtra Lotto, Mega Millions, Powerball and 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, 2017 and 2016, Delaware Life had annuity contracts totaling approximately \$22,091,348 and \$24,657,743, respectively. However, due to the long-term nature of these contracts, the credit quality of the issuer is subject to change.

At June 30, 2017 and 2016, the Division of State Lottery held insurance company annuity contracts totaling \$213,871,564 and \$207,140,451, respectively, issued through ten insurance companies, which are due in installments ranging from twenty-five years to the lifetime of the recipient. The estimated fair value of annuity contracts approximates the carrying value reflected in the accompanying statement of net position at June 30, 2017 and 2016.

C. FUTURE INSTALLMENT PRIZE AMOUNTS (CONTINUED)

U.S. government securities are carried at fair value. At June 30, 2017 and 2016, the Division of State Lottery had \$40,328,240 and \$45,382,268, respectively, in U.S. treasuries included in guaranteed annuity contracts (see financial statement footnote B).

Concentrations of Credit Risk

“Concentration of Credit Risk” is the risk that relates to the amount of investment at any one entity. The disclosure requirement of this risk factor is limited to investments in excess of 5% of the total. Guaranteed annuity contracts, as stated above, are the only category subject to concentration of credit risk disclosure.

A significant portion (in excess of 5% of total) of the Division of State Lottery’s investment in annuity contracts at June 30, 2017 and 2016, is invested with each of the following five companies:

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

D. LITIGATION

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

E. COMMITMENTS

Contractual Arrangements

The Division of State Lottery maintains a gaming network of over 7,600 retailer locations where all games are sold. IGT Corporation, formerly GTECH Corporation, is responsible for operating the network games and providing courier services 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. If NSNJ meets or exceeds the net income target for a given Fiscal Year, they can earn an incentive pay or alternatively, if they don’t meet the net income target, they are assessed a penalty.

E. COMMITMENTS (CONTINUED)

Contractual Arrangements (Continued)

The Northstar NJ contract provides for an allowance of \$20 million to offset any potential contribution shortfall payments over the life of the contract. This allowance was exhausted in fiscal years 2014 and 2015. For Fiscal Years 2016 and 2017, NSNJ met its amended contractual net income target resulting in an incentive contribution due to NSNJ of \$28,961,387 and \$30,623,965, respectively.

Prior to the beginning of each Fiscal Year the Division of State Lottery and Northstar NJ agree to an annual business plan that includes the projected operating expenses of Northstar NJ for the Fiscal Year. Each month NSNJ may invoice the Division of State Lottery one twelfth (1/12) of the total operating expenses for the Fiscal Year. Each monthly invoice is accompanied by detailed backup data and information supporting expenses incurred. At the end of the Fiscal Year Northstar NJ operating expenses are aggregated and reconciled with any excess returned to the Division of State Lottery. The Northstar NJ expenses for services to the Division of State Lottery amounted to \$43,223,208 and \$43,710,772 for the years ended June 30, 2017 and 2016, respectively.

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

Operating Leases

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

Years Ending June 30,	Amount
2018	\$ 638,550
2019	648,583
2020	655,750
2021	655,750
2022	655,750
2023-2024	929,979
	\$ 4,184,362

Rent expense for office facilities and equipment for the years ended June 30, 2017 and 2016, was \$1,080,369 and \$1,261,056, respectively.

F. GASB STATEMENT NUMBER 45 - ACCOUNTING AND FINANCIAL REPORTING BY EMPLOYERS FOR POST-RETIREMENT BENEFITS OTHER THAN PENSION

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

G. PENSION PLAN

The Division of State Lottery's employees which are part of the 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, 2017, 2016 and 2015, was \$5,749,046, \$5,910,857 and \$5,861,734, 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, 2017, the contribution rate was 3.06%.

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. SUBSEQUENT EVENTS

Effective July 1, 2017, with the passage of Chapter 98 of the Public Law of 2017, the Lottery Transfer Act and the subsequent Memorandum of Lottery Contribution ("MOLC") entered into between the State Treasurer and the Division of Investment, the operations of the Division of State Lottery and its resulting net revenues were transferred to Pension Fund L for a period of thirty years. While there is no impact from an accounting and auditing perspective for the fiscal year ended June 30, 2017, it is nonetheless a significant event that will have an impact on the financial statements of the Division of State Lottery for the next few decades. 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 compels the Division of State Lottery, specifically its Finance Department, to maintain two general ledgers. The pre-existing (or residual) 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 outlines 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 is 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. At the conclusion of this transition period, it is critical that all lottery funds (\$3.3 billion annually) have been allocated to the appropriate ledger. Moving forward, all accounting activity will be posted to the proper ledger.

I. SUBSEQUENT EVENTS (CONTINUED)

Other recently passed legislation impacting the Division of State Lottery is the Lottery Courier Law (Chapter 11 of the Public Laws of 2017). This legislation, which went into effect in November 2017, requires the Division of State Lottery to promulgate extensive rules and regulations governing the activity of the lottery couriers.

Prior to the passage of this law, services provided by a lottery courier were not regulated anywhere in the United States although a few states were permitting such couriers to operate.

In accordance with the Courier Law, and the subsequently enacted regulation, couriers will be required to maintain certain cyber security and technology standards. The Division of State Lottery will be regularly auditing registered couriers to ensure that they are in compliance with the provisions of the law.

Similar to the Lottery Transfer Act, the Courier Law has no direct impact on the Division of State Lottery's financial statements for the year ended June 30, 2017.

STATE OF NEW JERSEY, DEPARTMENT OF THE TREASURY, DIVISION OF STATE LOTTERY
SUPPLEMENTARY INFORMATION

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

	Year ended June 30, 2017		
	Budget (unaudited)	Actual	Variance (unfavorable) favorable
Operating revenues			
Ticket sales			
Pick 3	\$ 448,000,000	\$ 429,556,948	\$ (18,443,052)
Pick 4	279,000,000	273,452,759	(5,547,241)
Jersey Cash 5	156,450,000	165,040,813	8,590,813
Pick 6 Lotto	60,210,000	52,446,644	(7,763,356)
CASH4LIFE	37,024,000	40,950,780	3,926,780
Mega Millions	154,863,000	135,511,285	(19,351,715)
Powerball	185,657,000	213,478,557	27,821,557
Fastplay	41,652,000	26,904,333	(14,747,667)
Niche Games (5 Card Cash)	32,396,000	10,512,394	(21,883,606)
Monopoly Millionaires' Club	—	35,824	35,824
Instant Games	1,858,088,300	1,887,940,043	29,851,743
Sales discounts/tickets provided as prizes	(36,673,700)	(48,920,486)	(12,246,786)
	3,216,666,600	3,186,909,893	(29,756,707)
Other revenues			
Forfeited prizes	37,601,250	45,230,927	7,629,677
Miscellaneous	1,041,713	1,041,713	—
Total operating revenues	3,255,309,563	3,233,182,532	(22,127,031)
Operating expenses			
Prize expenses	1,965,549,301	1,927,302,259	38,247,042
Retailer commissions	181,211,055	181,905,365	(694,310)
Instant ticket vendor printing fees	22,594,354	24,876,907	(2,282,553)
Gaming system vendor fees	34,160,073	34,195,452	(35,379)
Northstar NJ management fee	5,056,000	5,056,829	(829)
Northstar NJ manager expenses	18,048,000	13,372,927	4,675,073
Northstar NJ advertising & marketing expenses	26,157,000	24,793,452	1,363,548
Administration expenses	13,271,000	9,418,452	3,852,548
Multi-State fees	150,000	42,024	107,976
Drawing broadcast fees	250,000	530,291	(280,291)
Bad debt expense	600,000	634,000	(34,000)
Instant ticket enhancement/license fees	2,000,000	—	2,000,000
Total operating expenses	2,269,046,783	2,222,127,958	46,918,825

STATE OF NEW JERSEY, DEPARTMENT OF THE TREASURY, DIVISION OF STATE LOTTERY
SUPPLEMENTARY INFORMATION

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

	Year ended June 30, 2017		
	Budget (unaudited)	Actual	Variance (unfavorable) favorable
Operating income	986,262,780	1,011,054,574	24,791,794
Non-operating revenue	200,000	2,087,359	1,887,359
Income before transfer	986,462,780	1,013,141,933	26,679,153
Northstar NJ incentive payment	21,921,075	28,961,387	(7,040,312)
Income available for transfer	964,541,705	984,180,546	19,638,841
Transfers out - contributions for state aid to education and state institutions	964,541,705	994,000,000	(29,458,295)
Change in net position	—	(9,819,454)	(9,819,454)
Net position, beginning of year	11,446,993	11,446,993	—
Net position, end of year	\$ 11,446,993	\$ 1,627,539	\$ (9,819,454)

SCHEDULE OF INSTANT GAME REVENUES

	Years Ended June 30,	
	2017	2016
\$5,000,000 CASH EXTRAVAGANZA	\$ 189,157,000	\$ 71,975,730
PLATINUM DIAMOND SPECTACULAR	93,082,660	—
\$5,000,000 FORTUNE	80,869,230	—
\$1,000,000 MAYHEM	68,917,862	—
100X THE CASH	54,415,780	80,048,840
ALL CASH MILLIONS	50,534,860	45,125,300
CROSSWORD	41,677,093	—
MEGA CROSSWORD	38,469,740	—
CROSSWORD	36,735,401	5,061,708
\$500 MAYHEM	35,912,855	—
CASH IN A FLASH	34,956,771	—
LUCKY 7s MULTIPLIER	31,410,590	—
WIN FOR LIFE	31,365,809	3,116,103
50X THE CASH	29,845,935	37,808,775
CROSSWORD	29,390,772	—
SUPER CROSSWORD	27,122,955	—
SUPER CROSSWORD	27,025,065	—
SUPER CROSSWORD	26,582,715	—
POKER SHOWDOWN	26,406,566	—
EXTRA PLAY	25,718,957	—
100 X THE BUCKS	25,608,020	—
BIG MONEY SPECTACULAR	25,164,972	—
\$10K BLOWOUT	25,075,403	—

STATE OF NEW JERSEY, DEPARTMENT OF THE TREASURY, DIVISION OF STATE LOTTERY
SUPPLEMENTARY INFORMATION

SCHEDULE OF INSTANT GAME REVENUES (CONTINUED)

	Years Ended June 30,	
	2017	2016
BIG MONEY SPECTACULAR	\$ 24,812,292	\$ —
BIG MONEY SPECTACULAR	24,032,276	1,101,600
LUCKY 7s TRIPLER	22,337,100	—
WHEEL OF FORTUNE	21,958,671	—
BINGO BONUS SQUARE	21,548,871	—
MULTIPLIER MANIA	20,750,360	—
20X THE CASH	19,972,875	22,894,545
\$250,000 CROSSWORD	17,862,670	—
\$150,000 GOLD RUSH	17,849,686	5,112,310
\$250,000 CROSSWORD	17,784,588	—
\$250,000 CROSSWORD	17,465,674	—
JINGLE BILLS	17,134,945	—
\$250,000 CROSSWORD	17,023,390	—
HOT STREAK	16,774,880	—
LOTERIA	16,231,077	—
BANKROLL BINGO	16,169,550	—
LOTERIA	15,028,059	—
\$500 MONEY MADNESS	14,301,525	—
BLACK AND GOLD	14,283,885	—
\$2,000,000 MEGA CASH	14,115,690	62,387,140
SUPER CROSSWORD	13,909,685	—
\$150,000,000 CASH SPECTACULAR	13,897,289	61,839,520
\$100 MAYHEM	13,746,625	—
BIG MONEY SPECTACULAR	13,083,776	—
\$10K BLOWOUT	12,664,775	17,695,390
\$500,000 WINFALL	12,604,930	24,504,144
LUCKY 7s DOUBLE	12,588,906	—
ALL CASH CLUB	12,096,703	—
SHIMMERING 7'S	11,875,202	15,129,670
HOLIDAY LUCKY TIMES 10	11,630,623	—
INSTANT BINGO	11,588,826	—
LADY LUCK	10,876,405	—
CASINO ROYALE	10,408,330	13,883,807
SUPER CROSSWORD	10,251,045	16,846,035
CASH BLAST	9,842,859	13,170,700
LUCKY DAY	9,553,583	—
BINGO MULTIPLIER	9,546,579	11,428,880
SUPER CASH SPECTACULAR	9,130,181	23,837,274
\$100,000 WINNING STREAK	8,663,230	6,666,320
10X THE CASH	8,562,270	13,313,526
\$250,000 CROSSWORD	8,265,400	—
MONEY VAULT	8,197,877	—

STATE OF NEW JERSEY, DEPARTMENT OF THE TREASURY, DIVISION OF STATE LOTTERY
SUPPLEMENTARY INFORMATION

SCHEDULE OF INSTANT GAME REVENUES (CONTINUED)

	Years Ended June 30,	
	2017	2016
WILD CASH BONANZA	\$ 7,989,216	\$ 32,524,720
LUCKY CASH	7,942,475	19,894,503
MONEY BAGS	7,716,802	—
\$250,000 CROSSWORD	7,657,940	10,231,780
KISSES & CASH	7,547,433	—
SUPER 7'S SLINGO	7,491,987	8,923,659
\$2,500 FRENZY	7,429,834	21,065,274
INSTANT BINGO	7,165,182	—
CASH FLURRIES	7,162,684	—
\$20,000 HOLLWOOD CASH FANTASY	7,055,499	—
LIFE IS GOOD	6,812,443	1,835,610
HOLIDAY LUCK	6,336,169	—
WORLD SERIES OF POKER	6,323,160	21,298,446
\$20,000 PAY DAY	6,030,960	22,262,729
BOARDWALK BUCKS	5,875,174	—
CASH IN A FLASH	5,721,330	—
WILD CASH	5,678,125	27,092,498
RED WHITE & BLUE DOUBLER	5,351,848	631,096
QUICK \$50S	5,334,449	6,053,603
\$1,000,000 JACKPOT	5,186,570	19,110,052
SPRING \$50s	5,078,583	—
\$25 MAYHEM	5,024,385	—
BIRTHDAY SURPRISE	4,943,154	—
POCKET CHANGE	4,604,323	—
LUCKY 7s	4,424,443	—
\$10,000 PAY DAY	4,234,950	29,926,883
INSTANT BINGO	4,170,386	6,663,503
DOUBLE DOLLARS	4,146,838	—
WIN FOR LIFE	3,878,868	—
POCKET CHANGE	3,797,420	—
LUCKY CATCH	3,349,520	—
BIG MONEY SPECTACULAR	3,255,146	21,980,104
BIRTHDAY BUCKS	3,232,610	3,692,622
\$200,000 JACKPOT	3,103,890	14,405,823
ALL CASH CLUB	2,987,560	—
BIG CASH SPECTACULAR	2,234,902	14,688,037
TIC TAC TOE	2,209,180	1,855,195
POCKET CHANGE	2,109,184	—
5X THE CASH	2,086,735	4,226,564
CROSSWORD	1,817,145	40,177,386
SUPER SLOTS	1,801,285	16,505,895
LIBERTY BILLS	1,704,910	—

STATE OF NEW JERSEY, DEPARTMENT OF THE TREASURY, DIVISION OF STATE LOTTERY
SUPPLEMENTARY INFORMATION

SCHEDULE OF INSTANT GAME REVENUES (CONTINUED)

	Years Ended June 30,	
	2017	2016
SPRING FLING TRIPLER	\$ 1,471,350	\$ 7,283,685
DOUBLE DOUBLER	1,419,343	4,806,377
HOT SPOT BINGO	1,385,695	—
MONOPOLY MILLIONAIRES' CLUB	1,269,681	7,567,270
JOKER'S WILD	1,204,610	12,331,203
LOTERIA (D)	1,133,025	—
WIN FOR LIFE!	702,005	30,770,214
WILD CHERRY BINGO DOUBLER	668,529	17,243,956
\$100 FRENZY	648,186	11,145,432
DOUBLE \$\$	587,458	—
\$5,000,000 CASH EXTRAVAGANZA	547,350	152,973,829
RAPID REFUND	537,370	3,481,195
LOTERIA	437,064	28,053,779
\$250,000 CROSSWORD	378,350	17,587,300
FROSTY FUN	370,195	10,473,178
SUPER CROSSWORD	330,000	26,962,537
MEGA CROSSWORD	184,800	—
\$500 FRENZY	126,180	27,313,609
WIN \$2,500 A WEEK FOR LIFE	124,895	17,845,565
WILD 10S	116,662	17,840,691
BIG MONEY SPECTACULAR	83,012	25,167,376
\$50 FRENZY	76,338	3,724,657
WIN \$500 A WEEK FOR LIFE	65,051	5,933,853
CLASSIC BINGO	58,852	17,277,570
\$250,000 CROSSWORD	31,100	17,896,440
20X MONEY	15,839	15,369,604
QUICK CHANGE	15,335	5,238,141
WIN IT ALL	15,230	7,215,581
SEASON'S GOLD	13,570	22,448,258
CROSSWORD	11,859	41,816,993
10X MONEY	11,512	6,289,054
\$500,000 FORTUNE	11,160	27,869,818
MONOPOLY (\$2)	10,474	1,517,951
SUPER CROSSWORD	10,065	27,669,390
DOUBLE DIAMOND SPECTACULAR	8,220	33,748,760
GOLD BAR BINGO	8,165	13,542,234
LUCKY LOOT	6,875	4,148,780
WILD DOUBLER	6,008	4,439,251
\$30,000 JACKPOT	4,638	7,300,855
MONOPOLY (\$1)	4,490	717,605
AMC THE WALKING DEAD	4,374	1,140,714
LOOSE CHANGE	3,394	3,063,382

STATE OF NEW JERSEY, DEPARTMENT OF THE TREASURY, DIVISION OF STATE LOTTERY
SUPPLEMENTARY INFORMATION

SCHEDULE OF INSTANT GAME REVENUES (CONTINUED)

	Years Ended June 30,	
	2017	2016
BIG MONEY SPECTACULAR	\$ 3,366	\$ 34,369,344
SUPER TIC TAC TOE	2,988	11,236,165
GEM 7s	2,695	1,849,902
\$250,000 CROSSWORD	2,560	18,004,242
HOLIDAY LUCKY TIMES 10	2,336	11,851,996
BIRTHDAY BUCKS	1,098	4,113,192
HOLIDAY SPARKLE	350	16,730,190
DIAMOND SPECTACULAR	300	1,519,218
\$100,000,000 SPECTACULAR	—	(600)
10X CASH	—	8,830
HOLD 'EM POKER	—	(295)
20X CASH	—	(3,140)
CLASSIC BINGO	—	(110)
3X CASH	—	(35)
NEW JERSEY HOLD 'EM POKER	—	7,115
MASSIVE MONEY BINGO	—	(2,260)
ZUMA	—	(177)
SUPER CROSSWORD	—	(300)
CROSSWORD	—	(606)
HIT \$50s	—	(694)
HIGH ROLLER	—	9,960
QUARTER MILLION CROSSWORD	—	127,470
7/11/2021	—	(1,761)
SILVER GOLD PLATINUM 7'S	—	19,395
DOUBLE BLACKJACK	—	(6,700)
FIRE & ICE	—	10,936
POWER PLAY CROSSWORD	—	(789)
CLASSIC BINGO	—	(2,294)
HOT DICE	—	(10,858)
ELECTRIC 5s	—	13,148
BINGO STAR TRIPLER	—	14,481
MONEY MATCH	—	418,600
CROSSWORD	—	(663)
BIG MONEY SPECTACULAR	—	(1,096)
TRIPLE DIAMONDS	—	484,350
BIG MONEY SPECTACULAR	—	1,692
SUPER CROSSWORD	—	(1,280)
MONOPOLY (\$5)	—	116,176
BIG MONEY SPECTACULAR	—	175,769
CLASSIC BINGO	—	15,262
CROSSWORD	—	7,515
HOLIDAY LUCKY TIMES 10	—	345,048

STATE OF NEW JERSEY, DEPARTMENT OF THE TREASURY, DIVISION OF STATE LOTTERY
SUPPLEMENTARY INFORMATION

SCHEDULE OF INSTANT GAME REVENUES (CONTINUED)

	Years Ended June 30,	
	2017	2016
HOLIDAY GOLD	\$ —	\$ 311,330
SUPER CROSSWORD	—	12,690
SUPER CROSSWORD	—	755,315
WIN \$1,000 A WEEK FOR LIFE	(2)	3,101,703
2015 CASH SPECTACULAR	(2)	102,467
CHILLY BILLS	(46)	73,226
HOLIDAY MAGIC	(115)	182,194
BIG MONEY SPECTACULAR	(192)	17,956,053
\$250,000 CROSSWORD	(300)	119,650
CROSSWORD	(300)	671,278
CANDY CANE CROSSWORD	(300)	311,807
LUCKY IN LOVE	(300)	394,218
\$500 FRENZY	(315)	354,815
WORLD SERIES OF POKER	(315)	2,957,075
BINGO X10	(335)	73,010
MASSIVE MONEY BINGO	(340)	5,747,990
\$10,000 PAYDAY	(460)	1,159,276
CLASSIC BINGO	(548)	2,231,212
HOLIDAY CASH	(654)	70,698
SUPER CROSSWORD	(1,020)	27,763,089
50X MONEY	(1,060)	13,001,259
\$250,000 CROSSWORD	(1,310)	8,809,530
SUPER CROSSWORD	(1,380)	15,715,815
BIG CASH SPECTACULAR	(2,238)	5,664,402
DOUBLE MATCH	(2,710)	10,466,746
CASH BONUS BINGO	(2,874)	4,297,296
CROSSWORD	(3,081)	27,672,013
\$5,000 JACKPOT	(3,224)	2,115,907
5X MONEY	(3,244)	894,387
ESCAPE TO MARGARITAVILLE	(4,316)	2,126,790
CASH EXPLOSION	(4,366)	7,707,106
DOUBLE YOUR LUCK	(5,755)	2,791,141
BLOOMIN' BUCKS	(6,188)	3,944,436
TRIPLE WINNING 7s	(6,465)	10,371,492
PRIOR YEAR GAME	(6,820)	—
HOLIDAY CHEER	(8,255)	6,362,331
TOTALS	\$ 1,887,940,043	\$ 1,872,915,471

SCHEDULE OF ADMINISTRATIVE EXPENSES

	Years Ended June 30,	
	2017	2016
Salaries	\$ 6,101,591	\$ 6,315,443
Printing & Office Supplies	92,020	65,801
Vehicular Supplies	1,020	489
Household & Clothing	5,648	2,898
Travel	40,851	40,177
Telephone	112,838	112,820
Postage	50,559	50,512
Data Processing	690,392	790,147
Household & Security	208,119	238,456
Professional Services	332,452	352,000
Other Professional Services	244,640	300,245
Data Processing-OIT	234,715	192,813
Maintenance - Building & Grounds	6,567	2,199
Maintenance - Office Equipment	6,880	6,150
Rent - Building & Grounds	1,080,369	1,261,056
Central Motor Pool	81,246	85,606
Vehicular Equipment	1,103	32,202
Other Equipment	39,473	178,709
Information Processing Equipment	20,509	31,056
Amortization	67,461	75,378
Totals	\$ 9,418,452	\$ 10,134,156

SCHEDULE OF NORTHSTAR NJ NET INCOME TARGETS (UNAUDITED)

Year	Fiscal Year	Net Income Target	
Year 1 (Stub Year)	2014	\$ 760,897,061	(Prorated)
Year 2	2015	1,047,000,000	
Year 3	2016	963,478,103	
Year 4	2017	990,513,343	
Year 5	2018	1,009,871,643	
Year 6	2019	1,023,544,636	
Year 7	2020	1,036,114,600	
Year 8	2021	1,045,300,757	
Year 9	2022	1,054,562,917	
Year 10	2023	1,063,906,791	
Year 11	2024	1,073,794,937	
Year 12	2025	1,083,757,077	
Year 13	2026	1,093,797,230	
Year 14	2027	1,103,903,546	
Year 15	2028	1,114,089,100	
Year 16	2029	1,124,348,918	



**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 Division of State Lottery (the "Division of State Lottery") as of and for the year ended June 30, 2017 and 2016, 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 December 19, 2017.

Internal Control over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

MERCADIEN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

December 19, 2017





STATE OF NEW JERSEY,
DIVISION OF STATE LOTTERY

Financial Statements and Supplementary Information

June 30, 2018



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INTRODUCTION

The following discussion and analysis provides an analytical overview of the financial position and activities of the State of New Jersey, Department of the Treasury, Division of State Lottery (the "Division of State Lottery") for the years ended June 30, 2018 and 2017. 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 et seq. 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 "State Lottery Law" also mandates that a minimum of 30% of gross revenues from ticket sales be allocated for contributions to state aid for education and state institutions N.J.S.A. 5:9-7a (11).

As of June 30, 2018, the Division of State Lottery licensed more than 7,200 retailers throughout the State of New Jersey to act as retailers in the sale of New Jersey Lottery tickets. Lottery retailers receive compensation in the form of commissions on each ticket sold or validated, bonuses and various retailer incentive programs.

On June 20, 2013, a competitively bid 15-year (plus fiscal year 2014 stub year) contract was awarded to Northstar New Jersey, LLC (Northstar NJ) to provide sales and marketing services to the Division of State Lottery for the purpose of increasing lottery sales and net income (net proceeds for state aid for education and state institutions). If contracted net income targets for a given fiscal year are met or exceeded, Northstar NJ will earn incentive compensation. Conversely, if net income targets for a given fiscal year are not met it could result in reduced incentive or a contribution shortfall payment to the Division of State Lottery. In addition to compensation for its sales and marketing efforts, Northstar NJ is reimbursed for certain direct costs it incurs on behalf of the Division of State Lottery.

For the purposes of the incentive compensation calculation, the Division of State Lottery's net income is predicated on income targets contained in the amended Northstar NJ contract (see Schedule of Northstar NJ Net Income Targets). The Division of State Lottery's actual net income for a fiscal year is decreased when Northstar NJ earns an incentive payment and is increased if Northstar NJ is obligated to pay a shortfall payment.

Northstar NJ's first operational year was a stub year; October 1, 2013 through June 30, 2014. The remaining fifteen years (fiscal years 2015 - 2029) of the contract coincide with the Lottery's fiscal year, starting on July 1 and ending on June 30 through the year ending June 30, 2029. The year ended June 30, 2018, was the fourth full operational year of the contract.

Under the terms of the agreement, Northstar NJ is responsible for subcontracting on behalf of the Lottery for services that the Division of State Lottery previously contracted. Such services include the online terminal network for ticket sales, the warehousing and distribution of instant tickets, printing contracts for instant tickets, and marketing and advertising services.

INTRODUCTION (CONTINUED)

The Division of State Lottery offers various products for sale with prize awards ranging from \$1.00 to annuity prizes well in excess of \$100 million. The various products sold are:

- Instant Games (Scratch-Offs)
- FastPlay
- 5 Card Cash All In (launched in May 2016)
- Pick 3 Fireball (Including Pick 3 Instant Match)
- Pick 4 Fireball (Including Pick 4 Instant Match)
- Jersey Cash 5 Xtra (Including Jersey Cash 5 Instant Match)
- Pick 6 Xtra
- Mega Millions
- Powerball
- CASH4LIFE Doubler
- Quick Draw (launched in July 2017)

FINANCIAL HIGHLIGHTS

The Division of State Lottery's financial position at June 30, 2018 and 2017, consisted of total assets of \$501 million and \$516 million, respectively, and total liabilities of \$500 million and \$514 million, respectively. A substantial portion of the asset and liability amounts for the year ending June 30, 2018, 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, 2018 and 2017, were \$234 million and \$254 million, respectively. Net position decreased from \$1.6 million in fiscal year 2017 to \$1.5 million for fiscal year 2018.

FINANCIAL STATEMENTS

The Division of State Lottery's financial statements include statements of net position as of June 30, 2018 and 2017, statements of revenues, expenses and changes in net position for years ended June 30, 2018 and 2017, and statements of cash flows for years ended June 30, 2018 and 2017. The financial statements are prepared in accordance with the accounting principles established by the Governmental Accounting Standards Board.

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:

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

FINANCIAL STATEMENTS (CONTINUED)

Statements of Net Position (Continued)

	June 30,		
	2018	2017	2016
Current Assets	\$ 291	\$ 287	\$ 326
Deposit Fund Contracts	210	228	227
Total Assets	501	515	553
Current Liabilities	291	285	314
Non-Current Liabilities	208	228	228
Total Liabilities	499	513	542
Restricted Net Position	1.0	0.8	3.9
Unrestricted Net Position	0.5	0.8	7.5
Total Net Position	\$ 1.5	\$ 1.6	\$ 11.4

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 \$250 million and \$244 million at June 30, 2018 and 2017, 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 \$234 million and \$254 million as of June 30, 2018 and 2017, respectively. The Division of State Lottery has annuity investments with eleven (11) insurance companies. The total market value of the United States Treasury securities was \$40 million at June 30, 2018 and 2017, respectively. The annuities due beyond fiscal years 2018 and 2017 total \$208 million and \$228 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 \$25 million and \$26 million as of June 30, 2018 and 2017, respectively.

Non-current liabilities represent annuity prize awards due beyond 2018 and also include the total due for unused vacation and sick leave (compensated absences).

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

	June 30,		
	2018	2017	2016
Restricted (Unclaimed Prize Reserves)	1.0	0.8	3.9
Unrestricted	0.5	0.8	7.5
Total Net Position	\$ 1.5	\$ 1.6	\$ 11.4

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

FINANCIAL STATEMENTS (CONTINUED)

Statements of Revenues, Expenses and Changes in Net Position

The results of the Division of State Lottery's operations are presented in the statements of revenues, expenses and changes in net position, which are summarized (in millions) as follows:

	Years Ended June 30,		
	2018	2017	2016
Operating revenues			
Ticket sales	\$ 3,300	\$ 3,187	\$ 3,290
Forfeited prizes	52	45	34
Miscellaneous income	1	1	2
Total operating revenue	3,353	3,233	3,326
Operating expenses			
Prize expenses	1,991	1,927	2,002
Retailer commissions	188	182	186
Northstar NJ fees & expenses	47	43	44
Vendor fees	59	60	60
Administrative expense	9	9	10
Bad debt expense	0	1	0
Total operating expenses	2,294	2,222	2,302
Operating income	1,059	1,011	1,024
Non-Operating (expenses) revenue	(29)	(27)	(28)
Income before transfers out	1,030	984	997
Operating transfers - State contributions	1,030	994	987
(Decrease) increase in net position	\$ 0	\$ (10)	\$ 10

The Division of State Lottery awarded approximately \$1.991 billion in prize awards in fiscal year 2018 and approximately \$1.927 billion in fiscal year 2017.

Northstar NJ is the primary vendor for the Division of State Lottery. As such, Northstar NJ is responsible for providing critical services to the Division of State Lottery, including the production, warehousing, distribution and accounting for all lottery tickets. The total compensation paid to Northstar NJ for services (exclusive of incentive compensation) was \$105 million in fiscal year 2018. This amount paid to Northstar NJ for the services it provided or procured on behalf of the Division of State Lottery, included \$26 million for advertising and marketing costs, \$35 million for gaming system vendor fees, and \$24 million for instant ticket vendor printing fees. In fiscal year 2017, the total compensation paid to Northstar NJ for these same goods and services was \$102 million. Of this amount, \$25 million was for advertising and marketing costs; \$34 million for gaming system vendor fees; and \$25 million for instant ticket vendor printing fees.

FINANCIAL STATEMENTS (CONTINUED)

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

The Division of State Lottery's administrative expenses for the fiscal years 2018 and 2017 were \$9 million, respectively, for each year. These administrative expenses include salaries, auditing services, rent, security, data processing services, office supplies and attorney general fees. The management services contract has shifted advertising and other expenses from the Division of State Lottery to Northstar NJ.

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, for state aid for education and state institutions. As a result of various sales initiatives, game enhancements and efficient operations, the Division of State Lottery contributed \$1,030 million, 31% of net revenues, in fiscal year 2018 and \$994 million, 31% of net revenues, in fiscal year 2017.

During the term of the contract, Northstar NJ'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, incentive compensation is increased in the event that the net income target is exceeded. Furthermore, in the event that actual net income is significantly below the contracted net income target, then the contribution shortfall payment provisions are invoked. Northstar's net income target for the fiscal year ended June 30, 2018, was \$1,009,871,643.

The income before transfers operating income for fiscal year 2018 totaled \$1,062 million. In accordance with the Northstar contract, a separate calculation is performed to determine the income for the purposes of establishing the incentive/shortfall payment. Northstar NJ's incentive/shortfall payment based on income before transfers of \$1,062 million resulted in an incentive payment of \$31,859,505.

The contract does establish bottom and top caps on Northstar NJ's compensation. In the event that Highest Income Levels are surpassed total compensation to Northstar NJ cannot exceed 3% of operating income for the entire contract year. Conversely, in the event Base Income Levels are not achieved, the contribution shortfall payment cannot exceed 2% of net income. In fiscal year 2018, the top cap had to be utilized in the incentive payment calculation, reducing the incentive payment by \$2,635,396. The calculation is outlined in the table below

INCENTIVE PAYMENTS BANDS	FY 2018
Above Base Level, Below Middle Level	5.0%
Above Middle Level, Below Upper Level	20.0%
Operating Income Levels	
Base Level Income	\$ 828,996,000
Middle Level Income	909,680,000
Lottery Management Agreement NET INCOME	1,061,983,504
Incentive Payments	
Above Base, Below Middle	4,034,200
Above Middle, Below Upper	30,460,701
Sub Total Incentive Payments	\$ \$34,494,901
High Cap (Actual Net Income X 3%)	\$ \$31,859,505
Total Incentive Payments	\$ \$31,859,505

FINANCIAL STATEMENTS (CONTINUED)

Statements of Cash Flows

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

	Years Ended June 30,		
	2018	2017	2016
Cash flows provided by operating activities	\$ 1,064	\$ 993	\$ 1,042
Cash flows used in non-capital financing activities	(1,037)	(964)	(1,017)
Cash flows (used in) provided by investing activities	(34)	(22)	(28)
Net increase (decrease) in cash	\$ (7)	\$ 7	\$ (3)

SUMMARY

In early fiscal year 2018, the Division of State Lottery launched Quick Draw, a keno style game where winning numbers are electronically drawn and then displayed on a television screen installed at retail locations. Quick Draw is a social space game. It was available predominantly in public venues such as bars and restaurants, before being expanded to the entire Lottery retailer network in early Fiscal 2019.

With Quick Draw, players can purchase a play for a \$1.00 minimum up to a \$10.00 maximum. Prizes range from \$1.00 up to \$1,000,000.00 depending on the purchase amount. Quick Draw is unique from other lottery games in the sense that many people can participate and engage with the game simultaneously via the large television screen enhancing interaction in social spaces. The game also provides an opportunity to a new set of businesses which do not currently offer traditional lottery games. In Fiscal 2019 the "Bullseye" feature was added, increasing the number of ways a player can win.

In conjunction with the Fiscal 2018 Appropriations Act, Governor Christie signed the Lottery Transfer Act (Chapter 98 of the Public Law of 2017) into law. The Lottery Transfer Act and the subsequent Memorandum of Lottery Contribution (MOLC) entered into between the State Treasurer and the Division of Investment, effectively transferred Lottery net revenues to the newly established Pension Fund L for the purposes of providing funding to select units of New Jersey's major public employee pension systems.

Both the legislation and the MOLC require that retained assets and liabilities of the Lottery existing prior to the transfer date (July 1, 2017), not be transferred to Pension Fund L for a thirty-year term. This requirement compels the Division of State Lottery, specifically its Finance Department, to maintain two general ledgers. The pre-existing (or residual) State Lottery Fund ledger accounts for all activity associated with those pre-existing assets and liabilities and new general ledger accounts for all the obligations and assets resulting from lottery sales and games emanating on and after the July 1, 2017, transfer date.

SUMMARY (CONTINUED)

The Lottery Transfer Act and the resulting requirement to maintain two general ledgers is a significant event that impacts the agency's financial statements beginning in fiscal year 2018 and for years to come.

Other recently passed legislation impacting the Division of State Lottery is the Lottery Courier Law (Chapter 11 of the Public Laws of 2017). This legislation, which went into effect in November 2017, required the Lottery to promulgate extensive rules and regulations governing the activity of the lottery couriers. The promulgated regulations went into effect in August 2018.

Prior to the passage of this law, services provided by a lottery courier were not regulated anywhere in the United States although a few states were permitting such couriers to operate.

In accordance with the Courier Law, and the subsequently enacted regulations, couriers will be required to maintain certain cyber security and technology standards. The Division of State Lottery will be regularly auditing registered couriers to ensure that they are in compliance with the provisions of the law.

The Courier Law has no direct impact on the Division of State Lottery's financial statements for the year ended June 30, 2018.

CONTACTING THE DIVISION'S FINANCIAL MANAGEMENT

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



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the State of New Jersey, Division of State Lottery (the "Division of State Lottery") as of and for the years ended June 30, 2018 and 2017, 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, 2018 and 2017, and the respective changes in its financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages one through seven 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 audit was 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, instant game 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, 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 14, 2019, on our consideration of Division of State Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division of State Lottery's internal control over financial reporting and compliance.

MERCADIEN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

February 14, 2019

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY
STATEMENTS OF NET POSITION

	June 30,	
	2018	2017
ASSETS		
Current Assets		
Cash	\$ 199,968	\$ 7,204,746
Accounts receivable, net of allowance for doubtful accounts of \$2,522,995 and \$3,109,635 in 2018 and 2017, respectively	14,634,218	8,596,404
Deferred Expenses	1,508,421	1,703,996
Investments:		
Deposit Fund Contracts	24,682,106	25,983,704
State of New Jersey Cash Management Fund	250,280,682	243,886,611
Total current assets	291,305,395	287,375,461
Non-Current Assets		
Investments - deposit fund contracts	209,860,703	228,216,100
Total non-current assets	209,860,703	228,216,100
Total assets	\$ 501,166,098	\$ 515,591,561
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 85,840,737	\$ 53,558,867
Obligation for unpaid prize awards	54,917,184	72,533,872
Installment prize awards	24,682,106	25,983,704
Due To State of New Jersey	126,296,012	133,000,000
Total current liabilities	291,736,039	285,076,443
Non-Current Liabilities		
Compensated absences	588,831	671,479
Installment prize awards	207,385,703	228,216,100
Total non-current liabilities	207,974,534	228,887,579
Total Liabilities	499,710,573	513,964,022
NET POSITION		
Restricted for prize awards or contributions	1,000,000	826,559
Unrestricted	455,525	800,980
Total Net Position	\$ 1,455,525	\$ 1,627,539

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Years ended June 30,	
	2018	2017
Operating revenues		
Ticket Sales		
Pick 3	\$ 421,314,899	\$ 429,556,948
Pick 4	267,152,439	273,452,759
Jersey Cash 5	154,151,709	165,040,813
Pick 6 Lotto	63,388,757	52,446,644
Cash 4 Life	41,619,762	40,950,780
Mega Millions	180,357,218	135,511,285
Powerball	231,872,739	213,478,557
Quick Draw	53,293,153	-
Fastplay	29,365,352	26,904,333
Niche Games (5 Card Cash)	5,521,419	10,512,394
Bonus Draw	-	35,824
Instant	1,911,034,446	1,887,940,043
Sales Discounts/Tickets Provided as Prizes	(59,369,142)	(48,920,486)
Total Ticket Sales	3,299,702,751	3,186,909,893
Other revenues		
Forfeited Prizes	52,361,976	45,230,927
Miscellaneous	1,333,000	1,041,713
Total operating revenues	3,353,397,727	3,233,182,532
Operating expenses		
Prize expenses	1,991,568,091	1,927,302,259
Retailer commissions	188,372,918	181,905,365
Instant ticket vendor printing fees	23,544,946	24,876,907
Gaming system vendor fees	35,280,003	34,195,452
Northstar NJ management fee	5,163,528	5,056,829
Northstar NJ manager expenses	14,529,015	13,372,927
Northstar NJ advertising & marketing expenses	26,580,770	24,793,452
Administration expenses	9,160,858	9,418,452
Multi-State fees	50,569	42,024
Drawing broadcast fees	428,583	530,291
Bad debt expense	-	634,000
Total Operating Expenses	2,294,679,281	2,222,127,958
Operating Income	1,058,718,446	1,011,054,574
Non-operating revenue	3,265,058	2,087,359
Income Before Transfers	1,061,983,504	1,013,141,933
Northstar NJ incentive payment	(31,859,505)	(28,961,387)
Income available for Transfer	1,030,123,999	984,180,546
Transfers out		
Contributions to Pensions	976,000,000	-
Contributions to Treasury	54,296,012	994,000,000
Total Transfers Out	1,030,296,012	994,000,000
Changes in net position	(172,013)	(9,819,454)
Net position, beginning of year	1,627,539	11,446,993
Net position - end of year	\$ 1,455,525	\$ 1,627,539

See notes to financial statements.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY
STATEMENTS OF CASH FLOWS

	Years ended June 30,	
	2018	2017
Cash Flows from Operating Activities		
Sales to customers	\$ 1,536,810,650	\$ 1,497,304,267
Payments for prize awards	(376,793,931)	(389,661,085)
Payments for vendor commissions and fees	(88,337,283)	(113,830,053)
Payments to suppliers	(10,413,143)	(10,048,217)
Other payments	(9,037,053)	(21,584)
Cash flows from annuity operations		
Annuity receipts	23,899,204	26,759,204
Purchases of annuities	(3,359,686)	-
Payments of annuity prizes	(8,494,136)	(17,358,486)
Net cash provided by operating activities	1,064,274,622	993,144,046
Cash Flows used in Non-Capital Financing Activities		
Contributions to State	(1,037,000,000)	(964,000,000)
Cash Flows from Investment Activities		
Cash Management Fund proceeds	1,885,953,096	1,194,200,000
Cash Management Fund purchases	(1,891,271,109)	(1,185,600,000)
Payments to Northstar NJ	(28,961,387)	(30,623,965)
Net cash used by investment activities	(34,279,400)	(22,023,965)
Net (Decrease) Increase in cash	(7,004,778)	7,120,081
Cash, beginning of year	7,204,746	84,665
Cash, end of year	\$ 199,968	\$ 7,204,746
Reconciliation of operating income to net cash provided by operating activities		
Operating Income	\$ 1,058,718,446	\$ 1,011,054,574
Changes in assets and liabilities		
Accounts receivable	(6,037,814)	37,591,931
Investments - deposit fund contracts	21,845,995	(1,677,084)
Other assets	195,575	986,567
Accounts payable and accrued expenses	29,383,752	(9,014,449)
Obligation for unpaid prize awards	(39,748,683)	(45,735,341)
Compensating absences	(82,648)	(62,152)
Net cash provided by operating activities	\$ 1,064,274,622	\$ 993,144,046

See notes to financial statements.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The State of New Jersey, Division of State Lottery (the “Division of State Lottery”) and the State Lottery Commission (the “Commission”) were concurrently established in 1970, pursuant to the “State Lottery Law” (N.J.S.A. 5:9-1 et seq.). The “Lottery Enterprise Contribution Act” (“LECA”) approved in 2017, directs the Lottery Enterprise for the benefit of the Teachers’ Pension and Annuity Fund (“TPAF”), the Public Employees’ Retirement System (“PERS”), and the Police and Firemen’s Retirement System (“PFRS”). Under the LECA the entirety of the Lottery Enterprise will be contributed to Pension Fund L, a common trust fund created and formed for the benefit of TPAF, PERS and PFRS for a period of 30 years. With the exception of a few retained assets and liabilities, all of the assets and liabilities of the Division of State Lottery were transferred to Pension Fund L on July 1, 2017. Under the LECA there is no material change in the Division of State Lottery’s operation and management, which will continue in its existing form as a division within the Department of the Treasury. The Commission consists of the State Treasurer, the director of the Division of (State) Investment and five public members, and is authorized and empowered to promulgate rules and regulations regarding the conduct of lottery games, including the price or prices of tickets, the number and size of prizes on winning tickets, the licensing of retailers, and the apportionment of ticket revenues. The Division of State Lottery’s financial statements are presented as those of a proprietary fund and include the operations for which the Division of State Lottery is financially accountable and exercises oversight responsibility.

Effective July 1, 2017, with the passage of Chapter 98 of the Public Law of 2017, the Lottery Transfer Act and the subsequent Memorandum of Lottery Contribution (“MOLC”) entered into between the State Treasurer and the Division of Investment, the Lottery and its resulting net revenues will be transferred to Pension Fund L for a period of thirty years. Both the legislation and the MOLC require that retained assets and liabilities of the Division of State Lottery existing prior to the transfer date (July 1, 2017), not be transferred to Pension Fund L. This requirement compelled the Division of State Lottery, specifically its Finance Department, to maintain two general ledgers. The pre-existing (or residual) Division of State Lottery fund ledger will now only account for all activity associated with those pre-existing assets and liabilities and a new general ledger will account for all the obligations and assets resulting from lottery sales and games emanating on and after the July 1, 2017, transfer date.

The MOLC outlined a six-month transition period for the Division of State Lottery to re-organize its accounting operation in a manner consistent with the spirit and intent of Chapter 98 of the Public Law of 2017. This was necessary to ensure that all the financial reporting, accounting operations, collections activity and accounts receivable functions of the Division of State Lottery are being properly recorded and posted.

Basis of Accounting

The Division of State Lottery prepares its financial statements using the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred.

In its accounting and financial reporting, the Division of State Lottery follows the pronouncements of the Governmental Accounting Standards Board (“GASB”) and other entities that promulgate accounting principles. GASB Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, establishes the order of priority of pronouncements and other sources of accounting and financial reporting guidance that a governmental entity should apply. Per the Statement, the sources

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

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 non-authoritative accounting literature from other sources. These include GASB Concepts Statements; pronouncements and other literature of the Financial Accounting Standards Board (“FASB”), Federal Accounting Standards Advisory Board, International Public Sector Accounting Standards Board, and International Accounting Standards Board, and AICPA literature not cleared by the GASB; practices that are widely recognized and prevalent in state and local government; literature of other professional associations or regulatory agencies; and accounting textbooks, handbooks, and articles.

Use of Estimates

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

State of New Jersey Cash Management Fund

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

Accounts Receivable

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

Installment Prize Awards and Prize Expenses

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

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Installment Prize Awards and Prize Expenses (Continued)

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

Equipment

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

Net Position

Restricted

Amounts restricted for prize awards or contributions for aid to education and state institutions 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 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", "Megaplier", "Powerball", "Power Play", "CASH4LIFE Doubler", "Quick Draw" and "5 Card Cash All In" games on the drawing date.
- Instant games are recognized daily, based upon the settlement of instant game inventory packs by selling retailers. Sales adjustments are recorded based upon final reconciliations prepared after the termination of a lottery instant game.
- Fastplay games upon the sale of each ticket.
- Sales discounts are recorded for the sales value of tickets provided to retailers at no cost, to be used for promotional purposes. Tickets provided as prizes are recorded as sales at the face value of each ticket, then backed out as discounts and are not included in prize expense.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Forfeited Prizes

The State Lottery Law requires that prizes not claimed within one year from the date of the drawing for machine games and within one year from the date of the game's closing for 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 aid education and 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 state aid for education and state institutions 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 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.

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, 2018 and 2017. The Division of State Lottery’s deposits with Wells Fargo are insured by the Federal Deposit Insurance Corporation up to \$250,000.

	June 30,	
	2018	2017
Wells Fargo	\$ 199,968	\$ 7,204,746
New Jersey Cash Management Fund	250,280,682	243,886,611
Total	\$ 250,480,650	\$ 251,091,357

The New Jersey Cash Management Fund (“NJCMF”) is a common trust fund administered by the Department of the Treasury, Division of Investment. NJCMF is considered to be an investment trust fund as defined in Governmental Accounting Standards Board (GASB) Statement No. 31. NJCMF funds are not subject to custodial credit risk due to the fact that the funds are held by and in the name of the NJCMF in a segregated trust account with the third-party custodian rather than in the possession of the third-party custodian. Additionally, though the underlying assets and investments of the NJCMF pool are subject to credit risk, the risk is limited by the mix of the credit quality ratings of the assets in the portfolio maintained by NJCMF.

Fair Value Measurements

The Division of State Lottery follows the Fair Value Measurements Topic of the GASB Accounting Standards, which provides a framework for measuring fair value under accounting principles generally accepted in the United States of America.

The Division of State Lottery categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

B. CASH AND INVESTMENTS (CONTINUED)

Fair Value on a Recurring Basis

The table below presents the balances of investments – deposit fund contracts measured at fair value on the statement of net position as of June 30, 2018 and 2017:

	June 30, 2018			
	Total	Level 1	Level 2	Level 3
Annuity Investment Deposit				
Fund Contracts	\$ 234,542,809	\$ 39,622,971	\$ —	\$ 194,919,838
Total	\$ 234,542,809	\$ 39,622,971	\$ —	\$ 194,919,838

	June 30, 2017			
	Total	Level 1	Level 2	Level 3
Annuity Investment Deposit				
Fund Contracts	\$ 254,199,804	\$ 40,328,240	\$ —	\$ 213,871,564
Total	\$ 254,199,804	\$ 40,328,240	\$ —	\$ 213,871,564

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 instant games. U.S. government securities fund term annuity prizes for games such as Pick 6 Xtra, Mega Millions, Powerball and 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, 2018 and 2017, Delaware Life had annuity contracts totaling approximately \$19,931,178 and \$20,102,781, respectively. However, due to the long-term nature of these contracts, the credit quality of the issuer is subject to change.

C. FUTURE INSTALLMENT PRIZE AMOUNTS (CONTINUED)

At June 30, 2018 and 2017, the Division of State Lottery held insurance company annuity contracts totaling \$194,919,838 and \$213,871,564, respectively, issued through eleven insurance companies, which are due in installments ranging from twenty-five years to the lifetime of the recipient. The estimated fair value of annuity contracts approximates the carrying value reflected in the accompanying statement of net position at June 30, 2018 and 2017.

U.S. government securities are carried at fair value. At June 30, 2018 and 2017, the Division of State Lottery had \$39,622,971 and \$40,328,240, respectively, in U.S. treasuries included in guaranteed annuity contracts (see financial statement footnote B).

Concentrations of Credit Risk

“Concentration of Credit Risk” is the risk that relates to the amount of investment at any one entity. The disclosure requirement of this risk factor is limited to investments in excess of 5% of the total. Guaranteed annuity contracts, as stated above, are the only category subject to concentration of credit risk disclosure.

A significant portion (in excess of 5% of total) of the Division of State Lottery’s investment in annuity contracts at June 30, 2018 and 2017, is invested with each of the following five companies:

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

D. LITIGATION

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

E. COMMITMENTS

Contractual Arrangements

The Division of State Lottery maintains a gaming network of over 7,200 retailer locations where all games are sold. IGT Corporation, formerly GTECH Corporation, is responsible for operating the network games and procurement of instant tickets (scratch offs) 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

E. COMMITMENTS (CONTINUED)

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. If NSNJ meets or exceeds the net income target for a given Fiscal Year, they can earn an incentive pay or alternatively, if they don't meet the net income target, they are assessed a penalty.

The Northstar NJ contract provided for an allowance of \$20 million to offset any potential contribution shortfall payments over the life of the contract. This allowance was exhausted in fiscal years 2014 and 2015. For Fiscal Years 2018 and 2017, NSNJ met its amended contractual net income target resulting in an incentive contribution due to NSNJ of \$31,859,505 and \$28,961,387, respectively.

Prior to the beginning of each Fiscal Year the Division of State Lottery and Northstar NJ agree to an annual business plan that includes the projected operating expenses of Northstar NJ for the Fiscal Year. Each month NSNJ may invoice the Division of State Lottery one twelfth (1/12) of the total operating expenses for the Fiscal Year. Each monthly invoice is accompanied by detailed backup data and information supporting expenses incurred. At the end of the Fiscal Year Northstar NJ operating expenses are aggregated and reconciled with any excess returned to the Division of State Lottery. The Northstar NJ expenses for services to the Division of State Lottery amounted to \$46,273,313 and \$43,223,208 for the years ended June 30, 2018 and 2017, respectively.

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

Operating Leases

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

Years Ending June 30,	Amount
2019	\$ 648,583
2020	655,750
2021	655,750
2022	655,750
2023	655,750
2024	273,229
	\$ 3,544,812

Rent expense for office facilities and equipment for the years ended June 30, 2018 and 2017, was \$840,845 and \$1,080,369, respectively.

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

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

G. PENSION PLAN

The Division of State Lottery's employees, as part of the 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, 2018, 2017 and 2016, was \$5,800,901, \$5,749,046, and \$5,910,857, respectively. The State of New Jersey's (the "State") contribution is based on the employer contribution rate developed by the system's actuary. The rate is then applied against the pension eligible salary for all State employees. The State does not keep track of contributions made to PERS for each separate state agency. For fiscal year ended June 30, 2018, 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. SUBSEQUENT EVENTS

Subsequent events were evaluated through February 14, 2019, which is the date that the financial statements were available to be issued. No items were noted that required disclosure.

SUPPLEMENTARY INFORMATION

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

	Year ended June 30, 2018		
	Budget (unaudited)	Actual	Variance (unfavorable) favorable
Operating revenues			
Ticket Sales			
Pick 3 w/Fireball	\$ 430,541,700	\$ 421,314,899	\$ (9,226,801)
Pick 4 w/Fireball	273,887,600	267,152,439	(6,735,161)
Jersey Cash 5 XTRA	158,057,900	154,151,709	(3,906,191)
Pick 6 XTRA	51,564,000	63,388,757	11,824,757
Cash 4 Life w/ Doubler	39,792,700	41,619,762	1,827,062
Mega Millions	143,691,800	180,357,218	36,665,418
Powerball	214,515,000	231,872,739	17,357,739
Quick Draw	56,369,500	53,293,153	(3,076,347)
Fastplay	25,497,700	29,365,352	3,867,652
Niche Games (5 Card Cash)	11,874,800	5,521,419	(6,353,381)
Bonus Draw	-	-	-
Instant	1,929,113,300	1,911,034,446	(18,078,854)
Sales Discounts/Tickets Provided as Prizes	(44,829,400)	(59,369,142)	(14,539,742)
Total Ticket Sales	3,290,076,600	3,299,702,751	9,626,151
Other revenues			
Forfeited Prizes	45,100,000	52,361,976	7,261,976
Miscellaneous	1,500,000	1,333,000	(167,000)
Total operating revenues	3,336,676,600	3,353,397,727	16,721,127
Operating expenses			
Prize expenses	2,000,928,173	1,991,568,091	9,360,082
Retailer commissions	185,283,298	188,372,918	(3,089,620)
Instant ticket vendor printing fees	23,458,018	23,544,946	(86,928)
Gaming system vendor fees	34,927,731	35,280,003	(352,272)
Northstar NJ management fee	5,163,528	5,163,528	-
Northstar NJ manager expenses	16,838,000	14,529,015	2,308,985
Northstar NJ advertising & marketing expenses	26,780,000	26,580,770	199,230
Administration expenses	13,271,000	9,160,858	4,110,142
Multi-State fees	150,000	50,569	99,431
Drawing broadcast fees	250,000	428,583	(178,583)
Bad debt expense	600,000	-	600,000
Instant Enhancement/License Fees	1,000,000	-	1,000,000
Total Operating Expenses	2,308,649,748	2,294,679,281	13,970,467

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY
SUPPLEMENTARY INFORMATION

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

	Year ended June 30, 2018		
	Budget (unaudited)	Actual	Variance (unfavorable) favorable
Operating Income	1,028,026,852	1,058,718,446	30,691,594
Non-operating revenue	200,000	3,265,058	3,065,058
Income (Loss) Before Transfers	1,028,226,852	1,061,983,504	33,756,652
Northstar NJ incentive payment	(24,212,796)	(31,859,505)	(7,646,709)
Income available for Transfer	1,004,014,056	1,030,123,999	26,109,943
Transfers out:			
Contributions to Pensions	1,004,015,584	976,000,000	28,015,584
Contributions to Treasury	—	54,296,012	(54,296,012)
Change in net assets	(1,528)	(172,013)	(170,485)
Net assets, beginning of year	1,627,539	1,627,539	—
Net assets - end of year	\$ 1,626,011	\$ 1,455,525	\$ (170,485)

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY
SUPPLEMENTARY INFORMATION

SCHEDULE OF NET POSITION

	As of June 30, 2018			
	Treasury	Pension Fund L	Elimination Entries	Total
ASSETS				
Current Assets				
Cash	\$ —	\$ 199,968	\$ —	\$ 199,968
Accounts receivable, net of allowance for doubtful accounts of \$2,522,995 and \$3,109,635 in 2018 and 2017, respectively	10,212,099	4,422,119	—	14,634,218
Deferred Expenses	1,514,749	(6,328)	—	1,508,421
Interfunds Receivable	—	213,297,950	(213,297,950)	—
Investments:				
Deposit Fund Contracts	24,482,106	200,000	—	24,682,106
State of New Jersey Cash Management Fund	243,886,611	6,394,071	—	250,280,682
Total current assets	280,095,564	224,507,780	(213,297,950)	291,305,395
Non-Current Assets				
Investments - deposit fund contracts	206,701,017	3,159,686	—	209,860,703
Total non-current assets	206,701,017	3,159,686	—	209,860,703
Total assets	\$ 486,796,581	\$ 227,667,466	\$ (213,297,950)	\$ 501,166,098
LIABILITIES				
Current Liabilities:				
Accounts payable and accrued expenses	\$ 1,208,499	\$ 84,632,238	\$ —	\$ 85,840,737
Obligation for unpaid prize awards	285,998	54,631,186	—	54,917,184
Installment prize awards	24,482,106	200,000	—	24,682,106
Interfunds Payable	213,297,950	—	(213,297,950)	—
Due To State Of New Jersey - Treasury Out	43,296,012	83,000,000	—	126,296,012
Total current liabilities	282,570,564	222,463,424	(213,297,950)	291,736,039
Non-Current Liabilities				
Compensated absences	—	588,831	—	588,831
Installment prize awards	204,226,017	3,159,686	—	207,385,703
Total non-current liabilities	204,226,017	3,748,517	—	207,974,534
Total Liabilities	486,796,581	226,211,941	(213,297,950)	499,710,573
NET POSITION				
Restricted for prize awards or contributions to State	500,000	500,000	—	1,000,000
Unrestricted	(500,000)	955,525	—	455,525
Total Net Position	\$ —	\$ 1,455,525	\$ —	\$ 1,455,525

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Year ended June 30, 2018		
	Treasury	Pension Fund L	Total
Operating revenues			
Ticket Sales			
Pick 3 Fireball	\$ —	\$ 421,314,899	421,314,899
Pick 4 Fireball	—	267,152,439	267,152,439
Jersey Cash 5 Xtra	—	154,151,709	154,151,709
Pick 6 Xtra	—	63,388,757	63,388,757
Cash 4 Life	—	41,619,762	41,619,762
Mega Millions	—	180,357,218	180,357,218
Powerball	—	231,872,739	231,872,739
Quick Draw	—	53,293,153	53,293,153
Fastplay	—	29,365,352	29,365,352
5 Card Cash All In	—	5,521,419	5,521,419
Instant	78,439	1,910,956,007	1,911,034,446
Sales Discounts	—	(59,369,142)	(59,369,142)
Total Ticket Sales	78,439	3,299,624,312	3,299,702,751
Other revenues			
Forfeited Prizes	52,361,976	—	52,361,976
Miscellaneous	282,949	1,050,051	1,333,000
Total operating revenues	52,723,364	3,300,674,363	3,353,397,727
Operating expenses			
Prize expenses	34,229	1,991,533,862	1,991,568,091
Retailer commissions	(8,135)	188,381,053	188,372,918
Instant ticket vendor printing fees	—	23,544,946	23,544,946
Gaming system vendor fees	918	35,279,085	35,280,003
Northstar NJ management fee	—	5,163,528	5,163,528
Northstar NJ manager expenses	—	14,529,015	14,529,015
Northstar NJ advertising & marketing expenses	—	26,580,770	26,580,770
Administration expenses	27,879	9,132,979	9,160,858
Multi-State fees	—	50,569	50,569
Drawing broadcast fees	—	428,583	428,583
Total Operating Expenses	54,891	2,294,624,390	2,294,679,281

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY
SUPPLEMENTARY INFORMATION

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

	Year ended June 30, 2018		
	Treasury	Pension Fund L	Total
Operating Income	52,668,473	1,006,049,973	1,058,718,446
Non-operating revenue Interest	—	3,265,058	3,265,058
Income before transfers out	52,668,473	1,009,315,031	1,061,983,504
Northstar NJ incentive payment	—	(31,859,505)	(31,859,505)
Income available for transfer	52,668,473	977,455,525	1,030,123,999
Transfers out:			
Contributions to Pensions	—	976,000,000	976,000,000
Contributions to Treasury	54,296,012	—	54,296,012
Total transfers out	54,296,012	976,000,000	1,030,296,012
Changes in net position	(1,627,539)	1,455,525	(172,013)
Net position, beginning of year	1,627,539	—	1,627,539
Net position - end of year	\$ —	\$ 1,455,525	\$ 1,455,525

SCHEDULE OF INSTANT GAME REVENUES

	Years ended June 30,	
	2018	2017
\$5,000,000 FORTUNE	\$ 151,783,440	80,869,230
\$200 MILLION CASH BONANZA	142,471,520	-
100 X THE BUCKS	94,603,614	25,608,020
PLATINUM DIAMOND SPECTACULAR	51,237,150	93,082,660
5X THE BUCKS	50,846,812	-
\$1,000,000 SPECTACULAR	50,626,750	-
INSTANT CASH MILLIONAIRE	44,914,900	-
MEGA CROSSWORD	42,120,718	184,800
CROSSWORD	41,762,992	-
CROSSWORD	39,335,313	-
\$5,000,000 LUCKY 7s	36,050,100	-
DAZZLING DIAMOND SPECTACULAR	33,914,940	-
\$1,000,000 MAYHEM	32,952,825	68,917,862
20X THE BUCKS	29,894,520	-
WIN FOR LIFE	28,188,043	3,878,868
CASH BASH	27,170,560	-
SUPER CROSSWORD	27,025,003	-
\$500,000 RICHES	27,010,334	-
SUPER CROSSWORD	26,930,220	-
\$500 FRENZY	25,981,125	-
SUPER CROSSWORD	25,161,421	-
BIG MONEY SPECTACULAR	25,005,588	-
\$10,000 BONUS	24,626,946	-
BIG MONEY SPECTACULAR	24,613,213	-
DIAMONDS AND DOLLARS	24,482,162	-
\$1,000,000 GOLD RUSH	23,516,130	-
7	23,429,260	-
BIG MONEY SPECTACULAR	23,136,117	-
SUPER CASINO	23,059,270	-
\$150,000 POKER	20,816,452	-
HOT SPOT BINGO	19,431,900	1,385,695
LUCKY TIMES 20	19,072,310	-
POWER PLAY CROSSWORD	17,987,310	-
\$250,000 CROSSWORD	17,845,799	-
CASH IN A FLASH	17,814,160	5,721,330
\$250,000 CROSSWORD	17,711,960	-
\$250,000 CROSSWORD	17,312,938	-

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY
SUPPLEMENTARY INFORMATION

SCHEDULE OF INSTANT GAME REVENUES (CONTINUED)

	Years ended June 30,	
	2018	2017
PINK DIAMOND BINGO	17,202,230	-
HOLIDAY SPECTACULAR	16,930,970	-
\$200,000 GOLD RUSH	16,909,185	-
\$250,000 CROSSWORD	16,123,004	-
LADY LUCK	16,108,821	10,876,405
HIGH CARD POKER	15,659,735	-
LOTERIA (D)	15,252,828	1,133,025
MULTIPLIER MANIA	14,933,040	20,750,360
JERSEY CASH BLOWOUT	14,802,190	-
10X THE BUCKS	14,141,082	-
LUCKY 7s MULTIPLIER	13,890,780	31,410,590
ALL CASH MILLIONS	13,691,200	50,534,860
DOUBLE WIN	13,435,943	-
SUPER CROSSWORD	13,041,045	13,909,685
HOLIDAY LUCKY TIMES 10	13,030,985	-
CROSSWORD	12,324,223	29,390,772
BIG MONEY SPECTACULAR	11,778,409	13,083,776
INSTANT BINGO	11,128,457	-
\$500 MONEY MADNESS	10,237,290	14,301,525
\$20,000 GOLD RUSH	9,817,676	-
BLACKOUT BINGO	9,572,032	-
SIZZLIN HOT 7S	9,353,260	-
HIT \$100!	9,335,001	-
DOUBLE MATCH	9,041,198	-
MILLION DOLLAR MULTIPLIER	9,024,880	-
\$250,000 CROSSWORD	8,944,510	8,265,400
BLACK AND GOLD	8,861,335	14,283,885
ALL CASH CLUB	8,754,385	2,987,560
RUBY RED RICHES	7,833,875	-
LOVE TO WIN DOUBLER	7,542,053	-
\$10K BLOWOUT	7,304,130	25,075,403
WIN FOR LIFE	7,237,209	-
FAST MONEY	7,182,194	-
MONEY VAULT	7,088,488	8,197,877

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SCHEDULE OF INSTANT GAME REVENUES (CONTINUED)

	Years ended June 30,	
	2018	2017
INSTANT BINGO	6,731,005	-
HOLIDAY SPARKLE	6,217,555	-
LIBERTY BILLS	6,191,653	1,704,910
LUCKY 7s TRIPLER	5,974,363	22,337,100
MEGA CROSSWORD	5,688,760	-
5X THE BUCKS	5,439,030	-
\$250,000 CROSSWORD	4,996,030	-
LOOSE CHANGE	4,797,499	-
BACKSTAGE PASS TO CASH	4,777,020	-
POCKET CHANGE	4,721,948	-
\$500 MAYHEM	4,685,665	35,912,855
BIRTHDAY SURPRISE	4,665,541	-
LOTERIA	4,616,541	-
MEGA CROSSWORD	4,593,260	38,469,740
LUCKY CATCH	4,458,783	3,349,520
WILD TIME MULTIPLIER	4,329,120	-
LOOSE CHANGE	4,187,530	-
INSTANT BINGO	4,161,847	7,165,182
EXTRA PLAY	3,967,164	25,718,957
SUPER CROSSWORD	3,837,370	-
DOUBLE \$\$	3,815,711	587,458
BIG MONEY SPECTACULAR	3,665,224	-
\$5,000,000 CASH EXTRAVAGANZA	3,088,440	189,157,000
SPRING \$50s	3,013,150	5,078,583
HOT STREAK	2,714,955	16,774,880
POKER SHOWDOWN	2,652,115	26,406,566
POCKET CHANGE	2,545,391	2,109,184
SUMMER LUCKY TIMES ¹⁰	2,477,796	-
\$150,000 GOLD RUSH	2,014,979	17,849,686
CROSSWORD	1,861,026	-
BIRTHDAY SURPRISE	1,824,468	4,943,154
BANKROLL BINGO	1,789,140	16,169,550
LUCKY 7s DOUBLE	1,281,791	12,588,906
MONEY BAGS	1,184,206	7,716,802

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY
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SCHEDULE OF INSTANT GAME REVENUES (CONTINUED)

	Years ended June 30,	
	2018	2017
BINGO BONUS SQUARE	1,110,985	21,548,871
HIGH CARD POKER	1,058,630	-
LOOSE CHANGE	1,032,965	-
LOTERIA	925,832	15,028,059
RED WHITE & BLUE DOUBLER	823,349	5,351,848
\$250,000 CROSSWORD	697,390	17,023,390
CASH FLURRIES	655,371	7,162,684
WHEEL OF FORTUNE	648,500	21,958,671
CASH IN A FLASH	554,120	34,956,771
CASINO ROYALE	548,565	10,408,330
SUPER CROSSWORD	410,770	26,582,715
\$100,000 WINNING STREAK	362,500	8,663,230
WIN FOR LIFE	348,181	31,365,809
\$20,000 HOLLWOOD CASH FANTASY	330,166	7,055,499
BIG MONEY SPECTACULAR	238,850	24,812,292
\$100 MAYHEM	198,392	13,746,625
BOARDWALK BUCKS	180,578	5,875,174
LUCKY 7s	108,927	4,424,443
POCKET CHANGE	96,539	4,604,323
ALL CASH CLUB	95,165	12,096,703
KISSES & CASH	55,349	7,547,433
DOUBLE DOLLARS	52,163	4,146,838
CROSSWORD	48,720	41,677,093
\$250,000 CROSSWORD	45,660	17,862,670
LUCKY CASH	23,805	-
100X THE CASH	23,720	-
INSTANT BINGO	15,126	-
JINGLE BILLS	9,345	-
SUPER CROSSWORD	8,215	-
\$500,000 WINFALL	8,100	-
LUCKY DAY	7,208	-
LIFE IS GOOD	6,327	-
20X THE CASH	5,210	-
LOTERIA	3,939	-

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY
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SCHEDULE OF INSTANT GAME REVENUES (CONTINUED)

	Years ended June 30,	
	2018	2017
\$250,000 CROSSWORD	3,430	-
BIG MONEY SPECTACULAR	3,380	-
\$20,000 PAY DAY	2,100	-
LADY LUCK BONUS	2,100	-
50X THE CASH	2,010	-
HOT RICHES	1,800	-
\$2,000,000 MEGA CASH	1,500	-
10X THE CASH	1,386	-
\$5,000,000 CASH EXTRAVAGANZA	600	-
SUPER TIC TAC TOE	600	-
PRIOR YEAR GAME	306	(6,820)
TIC TAC TOE	288	-
HOLIDAY LUCKY TIMES 10	146	-
100X THE CASH	-	54,415,780
DOUBLE DOUBLER	-	1,419,343
LUCKY CASH	-	7,942,475
10X THE CASH	-	8,562,270
20X THE CASH	-	19,972,875
50X THE CASH	-	29,845,935
SUPER CROSSWORD	-	10,251,045
DIAMOND SPECTACULAR	-	300
WIN \$500 A WEEK FOR LIFE	-	65,051
WIN \$1,000 A WEEK FOR LIFE	-	(2)
WIN \$2,500 A WEEK FOR LIFE	-	124,895
\$150,000,000 CASH SPECTACULAR	-	13,897,289
\$2,000,000 MEGA CASH	-	14,115,690
5X MONEY	-	(3,244)
10X MONEY	-	11,512
20X MONEY	-	15,839
50X MONEY	-	(1,060)
GEM 7s	-	2,695
\$500 FRENZY	-	(315)
LOOSE CHANGE	-	3,394
LUCKY LOOT	-	6,875

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY
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SCHEDULE OF INSTANT GAME REVENUES (CONTINUED)

	Years ended June 30,	
	2018	2017
\$250,000 CROSSWORD	-	(300)
LOTERIA	-	437,064
WORLD SERIES OF POKER	-	(315)
\$10,000 PAYDAY	-	(460)
MONOPOLY (\$1)	-	4,490
MONOPOLY (\$2)	-	10,474
MASSIVE MONEY BINGO	-	(340)
AMC THE WALKING DEAD	-	4,374
TRIPLE WINNING 7s	-	(6,465)
\$20,000 PAY DAY	-	6,030,960
BIRTHDAY BUCKS	-	1,098
BINGO X10	-	(335)
HOLIDAY CASH	-	(654)
HOLIDAY MAGIC	-	(115)
CROSSWORD	-	(300)
CLASSIC BINGO	-	(548)
CANDY CANE CROSSWORD	-	(300)
2015 CASH SPECTACULAR	-	(2)
WIN IT ALL	-	15,230
LUCKY IN LOVE	-	(300)
CASH BONUS BINGO	-	(2,874)
SUPER CASH SPECTACULAR	-	9,130,181
DOUBLE DIAMOND SPECTACULAR	-	8,220
CHILLY BILLS	-	(46)
CROSSWORD	-	(3,081)
CLASSIC BINGO	-	58,852
BIG MONEY SPECTACULAR	-	(192)
\$5,000,000 CASH EXTRAVAGANZA	-	547,350
BIG CASH SPECTACULAR	-	(2,238)
\$50 FRENZY	-	76,338
\$100 FRENZY	-	648,186
\$500 FRENZY	-	126,180
\$2,500 FRENZY	-	7,429,834
GOLD BAR BINGO	-	8,165

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY
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SCHEDULE OF INSTANT GAME REVENUES (CONTINUED)

	Years ended June 30,	
	2018	2017
BIRTHDAY BUCKS	-	3,232,610
\$10,000 PAY DAY	-	4,234,950
ESCAPE TO MARGARITAVILLE	-	(4,316)
SUPER TIC TAC TOE	-	2,988
MONOPOLY MILLIONAIRES' CLUB	-	1,269,681
\$5,000 JACKPOT	-	(3,224)
\$30,000 JACKPOT	-	4,638
\$200,000 JACKPOT	-	3,103,890
\$1,000,000 JACKPOT	-	5,186,570
\$250,000 CROSSWORD	-	(1,310)
DOUBLE YOUR LUCK	-	(5,755)
BLOOMIN' BUCKS	-	(6,188)
JOKER'S WILD	-	1,204,610
CASH EXPLOSION	-	(4,366)
WIN FOR LIFE!	-	702,005
\$500,000 FORTUNE	-	11,160
SUPER CROSSWORD	-	(1,380)
BIG CASH SPECTACULAR	-	2,234,902
SUPER SLOTS	-	1,801,285
WILD CHERRY BINGO DOUBLER	-	668,529
DOUBLE MATCH	-	(2,710)
QUICK CHANGE	-	15,335
SUPER CROSSWORD	-	(1,020)
CROSSWORD	-	11,859
BIG MONEY SPECTACULAR	-	3,366
WILD DOUBLER	-	6,008
WILD 10S	-	116,662
WILD CASH	-	5,678,125
WILD CASH BONANZA	-	7,989,216
SUPER CROSSWORD	-	10,065
\$250,000 CROSSWORD	-	2,560
WORLD SERIES OF POKER	-	6,323,160
HOLIDAY CHEER	-	(8,255)
HOLIDAY LUCKY TIMES 10	-	2,336

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY
SUPPLEMENTARY INFORMATION

SCHEDULE OF INSTANT GAME REVENUES (CONTINUED)

	Years ended June 30,	
	2018	2017
HOLIDAY SPARKLE	-	350
SEASON'S GOLD	-	13,570
FROSTY FUN	-	370,195
\$500,000 WINFALL	-	12,604,930
BIG MONEY SPECTACULAR	-	83,012
\$250,000 CROSSWORD	-	31,100
SUPER CROSSWORD	-	330,000
INSTANT BINGO	-	4,170,386
CROSSWORD	-	1,817,145
BINGO MULTIPLIER	-	9,546,579
5X THE CASH	-	2,086,735
RAPID REFUND	-	537,370
SPRING FLING TRIPLER	-	1,471,350
SUPER 7'S SLINGO	-	7,491,987
\$250,000 CROSSWORD	-	378,350
\$10K BLOWOUT	-	12,664,775
TIC TAC TOE	-	2,209,180
QUICK \$50S	-	5,334,449
CASH BLAST	-	9,842,859
LIFE IS GOOD	-	6,812,443
SHIMMERING 7'S	-	11,875,202
BIG MONEY SPECTACULAR	-	3,255,146
\$250,000 CROSSWORD	-	7,657,940
CROSSWORD	-	36,735,401
BIG MONEY SPECTACULAR	-	24,032,276
LOTERIA	-	16,231,077
INSTANT BINGO	-	11,588,826
POCKET CHANGE	-	3,797,420
LUCKY DAY	-	9,553,583
\$25 MAYHEM	-	5,024,385
SUPER CROSSWORD	-	27,025,065
\$250,000 CROSSWORD	-	17,784,588
HOLIDAY LUCK	-	6,336,169
HOLIDAY LUCKY TIMES 10	-	11,630,623

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY
SUPPLEMENTARY INFORMATION

SCHEDULE OF INSTANT GAME REVENUES (CONTINUED)

	Years ended June 30,	
	2018	2017
JINGLE BILLS	-	17,134,945
SUPER CROSSWORD	-	27,122,955
BIG MONEY SPECTACULAR	-	25,164,972
\$250,000 CROSSWORD	-	17,465,674
\$100 FRENZY	(4)	-
\$2,500 FRENZY	(40)	-
WILD DOUBLER	(77)	-
WILD CASH BONANZA	(100)	-
CROSSWORD	(108)	-
\$200,000 JACKPOT	(110)	-
WILD 10S	(124)	-
\$50 FRENZY	(185)	-
QUICK CHANGE	(198)	-
MONOPOLY MILLIONAIRES'	(205)	-
CLASSIC BINGO	(230)	-
JOKER'S WILD	(240)	-
WIN \$500 A WEEK FOR LIFE	(246)	-
SUPER CASH SPECTACULAR	(265)	-
GEM 7s	(300)	-
WIN FOR LIFE!	(300)	-
WIN \$2,500 A WEEK FOR LIFE	(310)	-
BIG CASH SPECTACULAR	(312)	-
BINGO MULTIPLIER	(320)	-
\$250,000 CROSSWORD	(330)	-
WILD CHERRY BINGO DOUBLE	(336)	-
CROSSWORD	(348)	-
CASH BLAST	(430)	-
BIG MONEY SPECTACULAR	(516)	-
SUPER CROSSWORD	(565)	-
BIG MONEY SPECTACULAR	(604)	-
SUPER CROSSWORD	(620)	-
WILD CASH	(670)	-
\$250,000 CROSSWORD	(670)	-
\$1,000,000 JACKPOT	(700)	-

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SCHEDULE OF INSTANT GAME REVENUES (CONTINUED)

	Years ended June 30,	
	2018	2017
\$25 MAYHEM	(737)	-
BIRTHDAY BUCKS	(818)	-
SHIMMERING 7'S	(865)	-
WORLD SERIES OF POKER	(1,075)	-
QUICK \$50S	(1,106)	-
SUPER 7'S SLINGO	(1,305)	-
\$150,000,000 CASH SPECTACULAR	(1,310)	-
SPRING FLING TRIPLER	(1,476)	-
\$10K BLOWOUT	(1,690)	-
SUPER SLOTS	(1,780)	-
INSTANT BINGO	(1,856)	-
5X THE CASH	(2,067)	-
DOUBLE DOUBLER	(2,372)	-
RAPID REFUND	(2,462)	-
PRIOR YEAR GAME	(3,600)	-
POCKET CHANGE	(5,331)	-
HOLIDAY LUCK	(8,083)	-
TOTALS	\$ 1,911,034,446	\$ 1,887,940,043

SUPPLEMENTARY INFORMATION

SCHEDULE OF ADMINISTRATIVE EXPENSES

	Years ended June 30,	
	2018	2017
Salaries	\$ 6,185,147	\$ 6,101,591
Printing & Office Supplies	91,273	92,020
Vehicular Supplies	1,077	1,020
Household & Clothing	5,670	5,648
Travel	45,244	40,851
Telephone	102,705	112,838
Postage	47,463	50,559
Data Processing	656,582	690,392
Household & Security	186,572	208,119
Professional Services	433,527	332,452
Other Professional Services	270,826	244,640
Data Processing-OIT	80,146	234,715
Maintenance - Building & Grounds	12,351	6,567
Maintenance - Office Equipment	12,641	6,880
Rent - Building & Grounds	840,845	1,080,369
Central Motor Pool	77,457	81,246
Vehicular Equipment	66,456	1,103
Other Equipment	15,758	39,473
Information Processing Equipment	1,238	20,509
Amortization	27,879	67,461
Totals	\$ 9,160,858	\$ 9,418,452

SCHEDULE OF NORTHSTAR NJ NET INCOME TARGETS (UNAUDITED)

Year	Fiscal Year	Net Income Target	
Year 1 (Stub Year)	2014	\$ 760,897,061	(Prorated)
Year 2	2015	1,047,000,000	
Year 3	2016	963,478,103	
Year 4	2017	990,513,343	
Year 5	2018	1,009,871,643	
Year 6	2019	1,023,544,636	
Year 7	2020	1,036,114,600	
Year 8	2021	1,045,300,757	
Year 9	2022	1,054,562,917	
Year 10	2023	1,063,906,791	
Year 11	2024	1,073,794,937	
Year 12	2025	1,083,757,077	
Year 13	2026	1,093,797,230	
Year 14	2027	1,103,903,546	
Year 15	2028	1,114,089,100	
Year 16	2029	1,124,348,918	



**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, 2018, 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 14, 2019.

Internal Control over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

MERCADIEN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

February 14, 2019





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