

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

Financial Statements  
and Supplementary Information

June 30, 2024

# STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

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

# STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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### INTRODUCTION

The following discussion and analysis provides an analytical overview of the financial position and activities of the State of New Jersey, Division of State Lottery (the "Division of State Lottery") for the years ended June 30, 2024 and 2023. This statement was prepared by management and should be read in conjunction with the financial statements and notes hereto, which follow this section.

The Division of State Lottery was established in 1970 pursuant to the State Lottery Law, N.J.S.A. 5:9-1 through 25. The Division of State Lottery operates within the Department of the Treasury of the State of New Jersey. The New Jersey Lottery Commission is a seven-member board, appointed by the Governor, authorized and empowered to promulgate rules and regulations in the operation of the Division of State Lottery. The Division of State Lottery has control and oversight over the operations of the statewide lottery program ("the New Jersey Lottery") that sells various draw games using computer sales terminals and instant or scratch-offs games using pre-printed tickets.

The Division of State Lottery's sales totaled \$3.632 billion in fiscal year 2024, the fourth highest in New Jersey Lottery history. The net proceeds to the State were also the second highest in New Jersey Lottery history and totaled \$1.172 billion. Sales decreased by 2.5% and contribution decreased 0.1% from fiscal year 2023 to fiscal year 2024, respectively. Prizes awarded to New Jersey Lottery players, the Division of State Lottery's largest expense item, totaled \$2.158 billion in fiscal year 2024, down from \$2.230 billion in fiscal year 2023. Commissions paid to New Jersey Lottery retailers, the Division of State Lottery's second largest expense item, totaled \$214 million, compared to \$220 million in fiscal year 2023.

The Division of State Lottery's financial position at June 30, 2024 and 2023, consisted of total assets of \$1.093 billion and \$506 million, respectively, and total liabilities of \$1.092 billion and \$506 million, respectively. The significant increase in both the total assets and the total liabilities is directly attributable to the cash value of a \$536 million Mega Millions grand prize won in New Jersey on March 26, 2024 and that prize remaining unclaimed as of June 30, 2024.

Another substantial portion of the asset and liability amounts for the year ended June 30, 2024, relates 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, 2024 and 2023, were \$181 million and \$194 million, respectively.

Net position increased from \$195,758 in fiscal year 2023 to \$677,053 for fiscal year 2024.

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

Scratch-off Tickets	Pick 3 w/Fireball
Pick 4 w/Fireball	Jersey Cash 5 w/Xtra
Pick 6 w/Double Play	Mega Millions w/Megaplier
Powerball w/Double Play and Power Play	Cash4Life w/Doubler
Fast Play Progressive	QuickDraw Progressive w/Bullseye
Cash Pop	

## STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

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

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#### **INTRODUCTION (CONTINUED)**

Pursuant to the Lottery Enterprise Contribution Act, L. 2017, c. 98 ("LECA"), the Lottery Enterprise must contribute all net proceeds to certain eligible pension plans for 30-years from enactment. The LECA furthers the viability of the State's Retirement System by authorizing the contribution from the Lottery Enterprise to the Teacher's Pension and Annuity Fund, the Public Employees' Retirement System, and the Police and Firemen's Retirement Systems. Under the LECA, the Division of State Lottery's net proceeds are contributed to the eligible Pension Plans each year until 2047. Prior to enactment of the LECA, the Division of State Lottery's net proceeds were contributed to the State's General Fund and utilized to support education and State institutions. The contribution of the Lottery Enterprise helps protect more than 760,000 State employees and retirees, and substantially reduces unfunded liabilities. The LECA, which improves solvency of the pension funds through the 30-year contribution of the Lottery Enterprise, does not impact Division of State Lottery operations or personnel.

Prior to implementation of the LECA (July 1, 2017), the Lottery underwent a valuation as an asset of the eligible pension plans. The purpose of the valuation was to ensure that the lottery revenues anticipated by the LECA for the duration of the act, were reasonable. The LECA requires that the Lottery be re-valued every 5 years. The first such re-valuation was conducted in fiscal year 2022. It confirmed the initial valuation to be reasonable and slightly adjusted anticipated revenues for the remaining years of the term of LECA. The next such re-valuation will take place in fiscal year 2027.

On June 20, 2013, a competitively bid 15-year contract was awarded to Northstar New Jersey, LLC ("Northstar") to provide sales and marketing services to the Division of State Lottery for the purpose of increasing lottery sales and net income. Northstar commenced providing these services to the Division of State Lottery on October 1, 2013. The Northstar Contract expires on June 30, 2029.

Northstar is reimbursed for operational and marketing costs it incurs on behalf of the Division of State Lottery. Under the Northstar Contract, if defined net income targets for a given fiscal year are met or exceeded, Northstar earns incentive compensation. If the net income targets for a given fiscal year are not met, the incentive compensation is reduced or may be eliminated entirely, and Northstar may owe a contribution payment to the Division of State Lottery. Northstar did exceed the net income targets under the contract for fiscal year 2024 and consequently is owed an incentive payment by the Division of State Lottery of \$21,840,889. In fiscal year 2023, Northstar also met the net income targets under the contract and was paid \$28,342,083 by the Division of State Lottery.

#### **FINANCIAL STATEMENTS**

The Division of State Lottery's financial statements include statements of net position as of June 30, 2024 and 2023, statements of revenues, expenses and changes in net position for years ended June 30, 2024 and 2023, and statements of cash flows for years ended June 30, 2024 and 2023. The statements of net position, the statements of revenues, expenses, and changes in net position and statement of cash flows for the years ending June 30, 2024 and 2023 were modestly impacted by implementation of GASB Statement No. 101 in this year's statements as detailed in Notes E and I. The financial statements are prepared in accordance with the accounting principles established by the Governmental Accounting Standards Board. The basis of accounting is an accrual basis.

In fiscal year 2024, the assets and operations of the Division of State Lottery continue to be subject to provisions of LECA.

## STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

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

#### FINANCIAL STATEMENTS (CONTINUED)

##### Statements of Net Position

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

	June 30,			\$ Change	% Change
	2024	2023	2022	2024-2023	2024-2023
Current Assets	\$ 930	\$ 333	\$ 310	\$ 598	179.7%
Non-Current Assets	163	173	186	(11)	(6.2%)
Total Assets	1,093	506	496	587	116.0%
Current Liabilities	928	331	309	597	180.2%
Non-Current Liabilities	164	174	186	(10)	(5.9%)
Total Liabilities	1,092	506	495	587	116.0%
Restricted Net Position	1.2	1.2	1.6	(0.1)	(6.1%)
Unrestricted Net Position	(0.5)	(1.0)	(0.3)	0.6	(54.0%)
Total Net Position	\$ 0.7	\$ 0.2	\$ 1.3	0.5	245.9%

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 \$894 million and \$295 million at June 30, 2024 and 2023, respectively. The significant increase in the investment in the NJCMF is directly attributable to the aforementioned \$536 million Mega Millions grand prize won in New Jersey on March 26, 2024 and that prize remaining unclaimed as of June 30, 2024. The unclaimed status of this prize also impacted current liabilities, specifically the obligation for unpaid prize awards which totaled \$713 million at June 30, 2024 and \$116 million at June 30, 2023.

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 \$181 million and \$194 million as of June 30, 2024 and 2023, respectively. The Division of State Lottery has annuity investments with eleven insurance companies. The total market value of the United States Treasury securities was \$25 million and \$29 million at June 30, 2024 and 2023, respectively. The annuities due beyond fiscal years 2024 and 2023 total \$163 million and \$173 million, respectively. These represent the majority of non-current assets reported on the Division of State Lottery's statements of net position. Although categorized as an asset, annuities represent an obligation that the Division of State Lottery has to pay the annuitants to fund the monies due to them over a fixed period of time based on the amount of the annuitized jackpot at the time of the "win". The duration of an annuity varies from twenty years to the life of a winner. Because of the true nature of these annuities, the Division of State Lottery has a fiduciary responsibility to continue to administer these instruments in a responsible and prudent manner. The current amounts to be paid to annuity winners totaled \$18 million and \$20 million as of June 30, 2024 and 2023, respectively.

For the last several years, the value of the portfolio of annuities managed by the Division of State Lottery has declined. This is due to the overwhelming number of new winners opting for the cash value of a prize advertised coupled with the expiration of several term and lifetime annuities each year.

Non-current liabilities represent annuity prize awards due beyond 2024 and also include the total due to Division of State Lottery employees for unused vacation and sick leave (compensated absences).

## STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

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

#### **FINANCIAL STATEMENTS (CONTINUED)**

##### **Statements of Net Position (Continued)**

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

	June 30,			\$ Change 2024-2023	% Change 2024-2023
	2024	2023	2022		
Restricted (Unclaimed Prize Reserves)	\$ 1.2	\$ 1.2	\$ 1.6	\$ (0.1)	(6.1%)
Unrestricted	(0.5)	(1.0)	(0.3)	0.6	(54.0%)
Total Net Position	\$ 0.7	\$ 0.2	\$ 1.3	0.5	245.9%

Expired prizes, or unclaimed prize reserves, are restricted to fund either future prizes or state contributions. As such they are available, if necessary, to fund prize liability on special promotions managed by the Division of State Lottery or its sales and marketing service provider, Northstar NJ, LLC. Consistent with the LECA, any such reserve reflected in Net Position has been and will continue to be minimal. As such the Net Position was increased by \$0.5 million from fiscal year 2023 to 2024.

##### **Statements of Revenues, Expenses and Changes in Net Position**

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

	June 30,			\$ Change 2024-2023	% Change 2024-2023
	2024	2023	2022		
Operating revenues					
Ticket sales	\$ 3,632	\$ 3,727	\$ 3,634	\$ (95)	(2.5%)
Forfeited prizes	42	44	49	(3)	(5.9%)
Miscellaneous income	1	1	2	0	8.0%
Total operating revenue	3,675	3,773	3,685	(97)	(2.6%)
Operating expenses					
Prize expenses	2,158	2,230	2,209	(73)	(3.3%)
Retailer commissions	214	220	213	(6)	(2.8%)
Northstar NJ fees and expenses	48	49	49	(1)	(2.1%)
Vendor fees	66	68	67	(2)	(3.4%)
Administrative expense	16	14	15	2	11.0%
Bad debt expense	0.1	-	-	0	- %
Total operating expenses	2,501	2,581	2,554	(80)	(3.1%)
Operating income	1,174	1,191	1,131	(17)	(1.4%)
Non-Operating (expenses) revenue	(1.6)	(19)	(19)	18	(91.7%)
Income before transfers out	1,172	1,172	1,112	1	0.0%
Operating transfers – State contributions	1,172	1,173	1,111	(1)	(0.1%)
(Decrease) increase in net position	\$ 0.5	\$ (1.1)	\$ 1.2	2	143.9%

Total Lottery ticket sales for fiscal year 2024 were \$3.632 billion, a 2.5% decrease from fiscal year 2023, when sales were \$3.727 billion.

## STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

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

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#### **FINANCIAL STATEMENTS (CONTINUED)**

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

The Division of State Lottery is required by the State Lottery Law to contribute a minimum of 30% of net revenues from ticket sales to the State of New Jersey. The Division of State Lottery contributed to the State pension system \$1.172 billion (32.2% of net revenues) in fiscal year 2024 and \$1.173 billion (31.5% of net revenues) in fiscal year 2023. The amount contributed to public pensions in fiscal year 2024 was the second highest in New Jersey Lottery history. The Lottery's sustained profitability in fiscal year 2024 relied significantly on strong Powerball and Mega Millions Sales throughout the year, with both games benefitting from large jackpots, including five jackpots that exceeded \$1 billion. The Division of State Lottery has continued to focus on the performance of in-state games Pick 3 and Pick 4, which have evidenced a long term trend of declining sales, and scratch-offs games which also continued a trend of several years of declining sales.

The Division of State Lottery's product offerings are divided into two major categories, scratch-offs (or instant games) and draw games. Sales of scratch-offs totaled \$2.060 billion during fiscal year 2024, a decrease of 5.1% from \$2.170 billion in fiscal year 2023. Sales of scratch-offs totaled \$2.170 billion during fiscal year 2023, a decrease of 1.4% from \$2.201 billion in fiscal year 2022.

Draw games include a wide spectrum of games, including classic New Jersey only games such as Pick 3 Fireball, Pick 4 Fireball, Jersey Cash 5 Xtra, Pick 6 Double Play, Fast Play Progressive, Cash Pop and Quick Draw Progressive and the multi-state jackpot games Cash4Life Doubler, Powerball, and Mega Millions. In fiscal year 2024, draw game sales totaled \$1.758 billion compared to \$1.729 billion in fiscal year 2023, an increase of 1.7%.

The Division of State Lottery's largest expense consists of prizes awarded to players. The Division of State Lottery awarded approximately \$2.158 billion in prizes in fiscal year 2024 and approximately \$2.230 billion in fiscal year 2023.

The Division of State Lottery's second largest expense is retailer commissions. Retailers are paid a commission of 5% on all Lottery sales and a commission of 1.25% for cashing winnings. The Division of State Lottery returned \$214 million and \$220 million to our network of nearly 7,000 retailers in fiscal years 2024 and 2023, respectively. Both prize expense and retailer commissions are functions of total sales, and as sales increase or decrease, those expenses also increase or decrease.

The Division of State Lottery's expenses also include several different vendor expenses. Northstar has subcontracts with various vendors for the operation of the Division of State Lottery's gaming system and the production of scratch-offs. Northstar invoices the Division of State Lottery for the costs associated with those vendors and services on a pass-through basis.

Gaming system fees are calculated based on the Division of State Lottery's total sales for the fiscal year and totaled \$40.1 million and \$40.9 million in fiscal years 2024 and 2023, respectively. Gaming system costs relate to the costs of operating and maintaining the entire gaming system and include most hardware costs, such as servers, retailer terminals and self-service machines. Gaming system fees are proportional to sales and decreased slightly compared to fiscal year 2023, similar to prize and commission expenses.

## STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

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

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#### **FINANCIAL STATEMENTS (CONTINUED)**

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

Scratch-off printing costs are calculated primarily on the value of scratch-offs tickets sold. There may be additional costs for individual scratch-offs games, such as licensing fees or special features of an actual ticket. Scratch-offs printing fees totaled \$25.7 million in fiscal year 2024, a 5.4% decrease from the \$27.1 million in fiscal year 2023. The decrease is attributable to the decline in sales year over year.

Northstar is the sales and marketing vendor for the Division of State Lottery. Northstar is responsible for providing critical services to the Division of State Lottery, including operating the sales force, conducting promotions, game development, and implementing the marketing strategy. As noted above, Northstar is also responsible for managing certain key subcontracts. Northstar management fees and expenses in fiscal years 2024 and 2023, were \$21.5 million and \$21.1 million, respectively. The costs of operating the Division of State Lottery's sales and marketing function include items such as employee salaries, rent and vehicle costs. The Northstar fees and expenses do not include incentive compensation paid to Northstar, as explained below.

Marketing and advertising expenses for the Division of State Lottery were \$26.6 million in fiscal year 2024 and \$28 million fiscal year 2023 respectively. Fiscal year 2024 marketing expenses were down slightly from the prior year because of several factors, including discretionary marketing decisions and the cancellation of a sponsorship agreement. Marketing and advertising expenses are separate from the management fees described above and are paid by Northstar to other vendors on behalf of the Division of State Lottery. The advertising and marketing costs include, for example, purchasing advertising time on television and radio, and production costs for the advertisements, billboards, and point of sale materials, such as posters and counter displays.

The Division of State Lottery's administrative expenses for the fiscal years 2024 and 2023 were \$15.6 million and \$14.0 million, respectively, for each year. These administrative expenses include salaries, auditing services, rent, security, data processing services, office supplies and fees to the Attorney General. Administrative expenses increased in fiscal year 2024 because the Division of State Lottery contributed \$2 million towards its employee fringe benefit costs. In fiscal year 2023, the Division of State Lottery was granted a waiver by the State and was not responsible for paying the costs of employee fringe benefits, as it had in past years. The balance of the increase was primarily due to the State of New Jersey's compliance with GASB Statement No. 101 which increased its allocated costs for compensated absences. Additionally, the implementation of GASB Statement No. 101 directly impacted administrative expenses in fiscal year 2024 and compelled a restating of the administrative expenses in fiscal year 2023 as detailed in Note I and further highlighted in the table below. Specifically, \$667,107 in administrative expenses associated with compensated absences were restated from fiscal year 2024 to fiscal year 2023. This had a commensurate effect on net income for both years where it increased in fiscal year 2024 and decreased in fiscal year 2023. The impact on Northstar's incentive pay was a shift in incentive compensation of \$133,421 for fiscal year 2024 to fiscal year 2023.

The chart below shows the impact of the restatement to the fiscal year 2023 Statement of Revenues, Expenses and Changes in Net Position:

## STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

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

#### FINANCIAL STATEMENTS (CONTINUED)

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

	June 30,	
	2023 Before Restatement	2023 After Restatement
Operating expenses		
Prize expenses	\$ 2,230,286,382	\$ 2,230,286,382
Retailer commissions	219,957,459	219,957,459
Northstar NJ fees and expenses	49,084,828	49,084,828
Vendor fees	68,048,925	68,048,925
Administration expenses	13,381,983	14,049,091
Bad debt expense	-	-
Total Operating Expenses	<u>2,580,759,577</u>	<u>2,581,426,685</u>
Operating Income	1,191,744,841	1,191,077,733
Northstar NJ Incentive Payment	(28,342,083)	(28,208,662)
Other Non-Operating (expenses) revenue	9,169,094	9,169,094
Income before transfers out	1,172,571,852	1,172,038,165
Operating transfers - State contributions	1,173,000,000	1,173,000,000
(Decrease) increase in net position	<u>\$ (428,148)</u>	<u>\$ (961,835)</u>

The Division of State Lottery has continued to perform several core functions of lottery operations following execution of the contract with Northstar. The Division of State Lottery remains responsible for the following operations: finance, payment of prizes, security and licensing of retailers, and conducting live drawings.

In fiscal year 2024, the Division of State Lottery had a total of \$21.8 million in non-operating expenses. This figure consists of the incentive payment to Northstar. The non-operating expense was offset by \$20.2 million in non-operating revenue which consisted entirely of interest earnings. Interest earnings were a function of high market interest rates and the large multistate jackpots, which resulted in the Division of State Lottery retaining prize funds for long periods as jackpots were not won and prize monies accumulated. In fiscal year 2023, the Division of State Lottery had a total of \$19.1 million in non-operating expenses. This figure includes an incentive payment to Northstar in the amount of \$28.3 million which was offset by \$0.3 million in GASB Statement No. 87 adjustments and by \$8.9 million in non-operating revenue consisting entirely of interest earnings.

Incentive compensation paid to Northstar is classified as a non-operating expense. If there is a shortfall payment owed by Northstar to the Division of State Lottery, it would be classified as non-operating income. Northstar is paid incentive compensation if the Division of State Lottery achieves certain net income targets during the fiscal year. Northstar's incentive compensation is reduced in the event the annual contractual net income target is not met or if the 30% minimum contribution threshold is not achieved.

## STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

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

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#### **FINANCIAL STATEMENTS (CONTINUED)**

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

In fiscal year 2019, the Division of State Lottery amended (“Amendment 4”) the service agreement with Northstar. Amendment 4 revised the formula for calculating the incentive payment owed to Northstar in that year, and increased the performance targets that are used to calculate any incentive payment to Northstar for the remainder of the Contract, thereby creating a higher performance bar to be reached before Northstar receives an incentive payment. Amendment 4 accounts for the increased sales generated by newer games. Since its inception and including fiscal year 2024, Amendment 4 has reduced the cumulative incentive payment to Northstar by more than \$48 million.

The calculation of the incentive compensation for fiscal year 2024 is set forth in the table below and is based on Schedule 10.2 of the Northstar Contract and Amendment 4. Schedule 10.2, Section 2 provides in general terms that Northstar earns an incentive payment if the Division of State Lottery’s Net Income exceeds targets identified as “Base Level Income” and “Middle Level Income” as specified for each remaining contract year in Amendment 4. Schedule 10.2, Section 3 of the Northstar Contract provides that a “Net Income Shortfall” shall be deemed to have occurred in any Contract Year in which Net Income does not meet or exceed the Net Income Target for such Contract Year. If a shortfall payment is owed, the amount of the shortfall payment must offset any incentive payment.

Amendment 4 set a net income target for fiscal year 2024 of \$1,124,767,787. Net income earned in fiscal year 2024 was \$1,194,322,186.

Because administrative expenses were restated, the calculation of Northstar’s incentive payment was modified in fiscal year 2024. For the purposes of calculating net income under the contract, the restated administrative expense was included in the fiscal year 2024 calculation, as shown in the chart below. The net income stated below to calculate the incentive payment accounts for an additional \$667,107 in Division administrative expenses that were shifted from fiscal year 2024 to fiscal year 2023. Thus, net income in the calculation below is stated as \$1,193,655,078, instead of \$1,194,322,186.

Under Amendment 4, there are two target income bands that are used to calculate incentive compensation, for each remaining year of the Northstar Contract. For fiscal year 2024, Amendment 4 set a Base Level Income target of \$925,004,850. Under the Base Level Income band, Northstar is entitled to receive 5% of that portion of net income that exceeds the Base Level Income for that year, but is equal to or less than the Middle Level Income. For fiscal year 2024, this amount was \$10,629,719. Amendment 4 set a Middle Level Income Target of \$1,137,599,230. Under the Middle Level Income and, Northstar is entitled to receive 20% of that portion of Net Income that exceeds the Middle Level Income for that year. For fiscal year 2024, this amount was \$11,211,170. Thus, the total incentive pay earned by Northstar was \$21,840,889. Increasing the administrative expenses for the fiscal year 2024 calculation caused the incentive pay to decrease by \$133,421 this year; recouping \$133,421 in additional compensation paid to Northstar last year. In fiscal year 2023, the total incentive pay earned by Northstar was \$28,342,083. Despite similar net income results, the incentive pay owed to Northstar decreased because the structure of Amendment 4, with its increased performance targets, anticipates a decreasing incentive payment over time.

## STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

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

#### FINANCIAL STATEMENTS (CONTINUED)

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

The Northstar Contract establishes top and bottom caps on Northstar's incentive compensation, and total incentive compensation to Northstar cannot exceed 3% of operating income for the entire contract year. Similarly, a shortfall payment to the Division of State Lottery cannot exceed 2% of operating income for the entire contract year. The 3% cap on incentive compensation was not utilized in fiscal year 2024.

The calculation is outlined in the table below.

<b>INCENTIVE PAYMENTS BANDS</b>	<b>FY 2024</b>
Above Base Level, Below Middle Level	5.0%
Above Middle Level, Below Upper Level	20.0%
<b>Operating Income Levels</b>	
<b>Base</b> Level Income (As is Scenario) (0.9%)	925,004,850
<b>Middle</b> Level Income (Performance Enhanced Scenario (2.9%))	1,137,599,230
<b>Lottery Management Agreement Net Income</b>	
Above Base, Below Middle	10,629,719
Above Middle, Below Upper	11,211,170
<b>Subtotal Incentive Pay</b>	<b>21,840,889</b>
High Cap (Actual Net Income X 3%)	<b>35,809,652</b>
<b>Total Incentive Payment (Post Cap if Applicable)</b>	<b>21,840,889</b>

#### Statements of Cash Flows

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

	June 30,			\$ Change	% Change
	2024	2023	2022	2024-2023	2024-2023
Cash flows from operating activities	\$ 1,776	\$ 1,228	\$ 1,127	\$ 548	44.7%
Cash flows from non-capital financing activities	(1,170)	(1,167)	(1,090)	(3)	0.3%
Cash flows from investing activities	(607)	(60)	(37)	(547)	908.6%
Net increase (decrease) in cash	\$ (1)	\$ 1	\$ -	(1)	- %

#### CONTACTING THE DIVISION'S FINANCIAL MANAGEMENT

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

## **INDEPENDENT AUDITORS' REPORT**

## **INDEPENDENT AUDITORS' REPORT**

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

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

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, 2024 and 2023, and the related notes to financial statements, which comprise the Division of State Lottery's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Division of State Lottery as of June 30, 2024 and 2023, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

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

#### ***Change in Accounting Principle***

As discussed in Note I to the financial statements, in 2024, the Division of State Lottery adopted new accounting guidance Governmental Accounting Standards Board ("GASB") Statement No. 101, "*Compensated Absences*". Our opinion is not modified with respect to this matter.

#### ***Responsibility of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

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

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

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Division of State Lottery's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Division of State Lottery's ability to continue as a going concern for a reasonable period of time.

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

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **INDEPENDENT AUDITORS' REPORT (CONTINUED)**

### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Division of State Lottery's basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information, except for budgeted amounts, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, except for budgeted amounts, the accompanying supplementary information, as listed in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### ***Other Information***

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

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

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2024, 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 grant agreements, 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 the Division of State Lottery's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division of State Lottery's internal control over financial reporting and compliance.

*Mercedien, P.C.*  
*Certified Public Accountants*

December 11, 2024

## **BASIC FINANCIAL STATEMENTS**

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

**STATEMENTS OF NET POSITION**

	June 30,	
	2024	2023*
<b>ASSETS</b>		
<u>Current Assets:</u>		
Cash	\$ 89,414	\$ 797,024
Accounts receivable, net of allowance for doubtful accounts of \$2,436,873 and \$2,397,423 in 2024 and 2023, respectively	16,530,965	13,920,084
Deferred Expenses	1,001,606	1,861,934
Investments:		
Deposit Fund Contracts	18,448,852	20,544,204
State of New Jersey Cash Management Fund	894,196,104	295,468,593
Total current assets	<u>930,266,941</u>	<u>332,591,839</u>
<u>Non Current Assets:</u>		
Investments - deposit fund contracts	162,635,101	173,073,632
Right-of-use Asset	-	251,087
Total non-current assets	<u>162,635,101</u>	<u>173,324,719</u>
Total Assets	<u>\$ 1,092,902,042</u>	<u>\$ 505,916,558</u>
<b>LIABILITIES</b>		
<u>Current Liabilities:</u>		
Accounts payable and accrued expenses	\$ 62,261,432	\$ 62,780,059
Obligation for unpaid prize awards	713,317,500	115,668,749
Installment prize awards	18,448,852	20,544,204
Lease Payable	-	251,087
Due to State of New Jersey	134,000,000	132,000,000
Total current liabilities	<u>928,027,784</u>	<u>331,244,100</u>
<u>Non Current Liabilities:</u>		
Compensated absences	1,562,104	1,403,068
Lease Payable	-	-
Installment prize awards	162,635,101	173,073,632
Total non current liabilities	<u>164,197,205</u>	<u>174,476,700</u>
Total Liabilities	<u>1,092,224,989</u>	<u>505,720,800</u>
<b>NET POSITION</b>		
Restricted for prize awards or contributions	1,150,955	1,226,334
Unrestricted	(473,902)	(1,030,576)
Total Net Position	<u>\$ 677,053</u>	<u>\$ 195,758</u>

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

# STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Years Ended June 30,	
	2024	2023*
Operating revenues		
Ticket Sales		
Pick 3 Fireball	\$ 389,405,725	\$ 398,223,613
Pick 4 Fireball	236,274,666	250,833,332
Jersey Cash 5 Xtra	139,344,796	137,293,281
Pick 6 Double Play	80,121,041	65,138,369
CASH4LIFE Doubler	63,398,011	62,677,360
Mega Millions	259,147,204	293,645,609
Powerball	369,616,337	308,624,548
Quick Draw	96,330,930	101,117,331
Fast Play	63,299,202	52,998,150
Cash Pop	61,346,050	58,635,133
Scratch-offs (Instant Games)	2,059,683,950	2,169,846,419
Sales Discounts/Tickets Provided as Prizes	(185,858,822)	(172,084,577)
Total Ticket Sales	<u>3,632,109,090</u>	<u>3,726,948,568</u>
Other revenues		
Forfeited prizes	41,861,482	44,498,494
Miscellaneous	1,141,934	1,057,356
Total operating revenues	<u>3,675,112,506</u>	<u>3,772,504,417</u>
Operating expenses		
Prize expenses	2,157,643,437	2,230,286,382
Retailer commissions	213,898,477	219,957,459
Instant ticket vendor printing fees	25,650,789	27,109,005
Gaming system vendor fees	40,103,580	40,939,920
Northstar NJ management fee	5,847,000	5,728,500
Northstar NJ manager expenses	15,635,789	15,388,458
Northstar NJ advertising and marketing expenses	26,582,355	27,967,870
Administration expenses	14,341,975	12,778,863
Multi-state fees	102,908	123,724
Drawing broadcast fees	1,147,412	1,146,504
Bad debt expense	114,109	-
Total operating expenses	<u>2,501,067,831</u>	<u>2,581,426,685</u>
Operating Income	<u>1,174,044,675</u>	<u>1,191,077,732</u>
Non-operating revenues		
Interest income	20,277,511	8,952,069
Income Before Transfers	<u>1,194,322,186</u>	<u>1,200,029,801</u>
Northstar NJ incentive payment	(21,840,889)	(28,342,083)
Lease amortization	-	217,025
Income available for transfer	<u>1,172,481,297</u>	<u>1,171,904,743</u>
Transfers out -		
Contributions to Pensions	<u>1,172,000,000</u>	<u>1,173,000,000</u>
Changes in net position	<u>481,297</u>	<u>(1,095,257)</u>
Net position, beginning of year	<u>195,756</u>	<u>1,291,013</u>
Net position, end of year	<u>-</u>	<u>862,864</u>
Net position, end of year, restated	<u>\$ 677,053</u>	<u>\$ 195,756</u>

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

See notes to financial statements.

# STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

## STATEMENTS OF CASH FLOWS

	Years Ended June 30,	
	2024	2023*
<b>Cash Flows from Operating Activities</b>		
Sales to customers	\$ 1,739,543,733	\$ 1,785,808,291
Payments for prize awards	153,781,281	(429,508,225)
Payments for vendor commissions and fees	(110,097,784)	(117,756,663)
Payments to suppliers	(12,028,833)	(14,536,200)
Other payments	(573,985)	(205,639)
Cash flows from annuity operations		
Annuity receipts	20,284,852	21,256,528
Payments of annuity prizes	(14,824,791)	(17,256,271)
Net cash from operating activities	<u>1,776,084,473</u>	<u>1,227,801,821</u>
<b>Cash Flows from Non-Capital Financing Activities</b>		
Contributions to State	<u>(1,170,000,000)</u>	<u>(1,167,000,000)</u>
<b>Cash Flows from Investing Activities</b>		
Cash Management Fund proceeds	1,629,350,000	1,638,550,000
Cash Management Fund purchases	(2,207,800,000)	(1,679,400,000)
Payments from/to Northstar NJ	(28,342,082)	(19,314,696)
Net cash from investing activities	<u>(606,792,082)</u>	<u>(60,164,696)</u>
Net change in cash	(707,609)	637,125
Cash, beginning of year	797,023	159,898
Cash, end of year	<u>\$ 89,414</u>	<u>\$ 797,023</u>
<b>Reconciliation of operating income to net cash from</b>		
Operating activities		
Operating Income	\$ 1,174,044,675	\$ 1,191,077,732
Changes in assets and liabilities		
Accounts receivable	(2,610,881)	27,395,196
Investments - deposit fund contracts	12,533,882	13,196,957
Other assets	1,328,440	330,019
Accounts payable and accrued expenses	5,982,566	(1,438,921)
Obligation for unpaid prize awards	585,114,868	(2,930,949)
Lease Payable	(468,112)	(490,500)
Compensating absences	159,035	662,286
Net cash from operating activities	<u>\$ 1,776,084,473</u>	<u>\$ 1,227,801,821</u>

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

# STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

## NOTES TO FINANCIAL STATEMENTS

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### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Reporting Entity

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

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

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

#### Basis of Accounting

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

In its accounting and financial reporting, the Division of State Lottery follows the pronouncements of the GASB and other entities that promulgate accounting principles. GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, establishes the order of priority of pronouncements and other sources of

# STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

## NOTES TO FINANCIAL STATEMENTS

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### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Basis of Accounting (Continued)**

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

#### **Use of Estimates**

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

#### **State of New Jersey Cash Management Fund**

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

#### **Accounts Receivable**

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

#### **Installment Prize Awards and Prize Expenses**

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

# STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

## NOTES TO FINANCIAL STATEMENTS

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### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Installment Prize Awards and Prize Expenses (Continued)**

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

#### **Equipment**

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

#### **Net Position**

##### **Restricted**

Amounts restricted for prize awards or contribution to pensions consist of prizes that are not claimed within one year from the date of the drawing for machine games and within one year from the date of game's closing for scratch-offs (instant games).

##### **Unrestricted**

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

#### **Revenue Recognition**

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

- "Pick-3 Fireball", "Pick-4 Fireball", "Jersey Cash 5 Xtra", "Pick 6 Double Play", "Mega Millions", "Powerball", "CASH4LIFE Doubler", "Quick Draw" and "Cash Pop" games on the drawing date.
- Scratch-offs (instant games) are recognized daily, based upon the settlement of instant game inventory packs by selling retailers. Sales adjustments are recorded based upon final reconciliations prepared after the termination of a lottery instant game.
- Fast Play games upon the sale of each ticket.
- Sales discounts are recorded for the sales value of tickets provided to retailers at no cost, to be used for promotional purposes. Tickets provided as prizes are recorded as sales at the face value of each ticket, then backed out as discounts and are not included in prize expense.

# STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

## NOTES TO FINANCIAL STATEMENTS

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### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Forfeited Prizes**

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

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

#### **Contributions and Prize Awards**

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

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

#### **Commissions and Fees**

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

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

#### **Administrative Expenses**

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

# STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

## NOTES TO FINANCIAL STATEMENTS

### B. CASH AND INVESTMENTS

The Division of State Lottery adopted GASB Statement No. 40, "*Deposit and Investment Risk Disclosures*", which requires uncollateralized deposits exposed to custodial credit risk to be disclosed. The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits that are in possession of an outside party. The following is a summary of the Division of State Lottery's cash deposits by financial institution that could be exposed at June 30, 2024 and 2023. The Division of State Lottery's deposits with Wells Fargo are insured by the Federal Deposit Insurance Corporation up to \$250,000.

	June 30,	
	2024	2023
Wells Fargo	\$ 88,914	\$ 796,524
Total	\$ 88,914	\$ 796,524

The NJCMF is a common trust fund administered by the Department of the Treasury, Division of Investment. NJCMF funds are not subject to custodial credit risk due to the fact that the funds are held by and in the name of the NJCMF in a segregated trust account with the third-party custodian rather than in the possession of the third-party custodian. Additionally, though the underlying assets and investments of the NJCMF pool are subject to credit risk, the risk is limited by the mix of the credit quality ratings of the assets in the portfolio maintained by NJCMF.

#### *Fair Value Measurements*

The Division of State Lottery follows the Fair Value Measurements Topic of the GASB Accounting Standards, which provides a framework for measuring fair value under accounting principles generally accepted in the United States of America. The Division of State Lottery categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

#### *Fair Value on a Recurring Basis*

The table below presents the balances of investments - deposit fund contracts measured at fair value on the statements of net position as of June 30, 2024 and 2023:

	June 30, 2024			
	Total	Level 1	Level 2	Level 3
Annuity Investment Deposit Fund Contracts	\$ 181,083,953	\$ 24,922,617	\$ -	\$ 156,161,336
New Jersey Cash Management Fund	894,196,104	-	894,196,104	-
Total	\$ 1,075,280,057	\$ 24,922,617	\$ 894,196,104	\$ 156,161,336

  

	June 30, 2023			
	Total	Level 1	Level 2	Level 3
Annuity Investment Deposit Fund Contracts	\$ 193,617,836	\$ 28,687,577	\$ -	\$ 164,930,259
New Jersey Cash Management Fund	295,468,593	-	295,468,593	-
Total	\$ 489,086,429	\$ 28,687,577	\$ 295,468,593	\$ 164,930,259

## STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

### NOTES TO FINANCIAL STATEMENTS

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#### C. FUTURE INSTALLMENT PRIZE AMOUNTS

The Division of State Lottery purchases annuity, or deposit fund contracts, from insurance companies and U.S. government securities to fund its liability for future installment prize awards. Generally, insurance company annuity contracts fund life annuities for games such as the CASH4LIFE Doubler draw game and Win for Life scratch-offs (instant games). U.S. government securities fund term annuity prizes for games such as Pick 6 Double Play, Mega Millions, Powerball and scratch-offs (instant games). An annuity contract represents an obligation by an insurance company to provide a fixed series of payments over a specified period.

Annuity contracts are carried at their current contract values, which are based upon their original purchase prices adjusted for credited interest and reduced by amounts already received by the Division of State Lottery and disbursed to annuitants. Annuity contracts are subject to credit risk. The Division of State Lottery seeks to control its exposure to such credit risk by purchasing annuity contracts only from insurance companies that meet certain minimum standards. Such standards include the following requirements:

1. Combined capital and surplus of at least \$1 billion;
2. Admitted assets of at least \$10 billion;
3. Risk based capital ratio of at least 300%; and
4. Must have ratings equal to or better than at least two of the three private rating agencies:
  - Standard & Poor's long-term insurer financial strength rating of AA- or higher,
  - AM Best financial strength rating of "A" or higher, and
  - Moody's long-term insurance financial strength rating of "Aa3" or higher.

According to the Division of State Lottery's calculation, only one company does not meet the criteria, that of Delaware Life, formerly Sun Life Assurance; as of June 30, 2024 and 2023, Delaware Life had annuity contracts totaling approximately \$16,173,198 and \$16,722,258, respectively. However, due to the long-term nature of these contracts, the credit quality of the issuer is subject to change.

At June 30, 2024 and 2023, the Division of State Lottery held insurance company annuity contracts issued through nine insurance companies, totaling \$156,161,336 and \$164,930,259, respectively.

U.S. government securities installments range from twenty-five years to the lifetime of the recipient. The securities are recorded at estimated fair value. The estimated fair value of annuity contracts approximates the carrying value of the securities. At June 30, 2024 and 2023, the Division of State Lottery had \$24,922,617 and \$28,687,577, respectively, in U.S. treasuries included in guaranteed annuity contracts (see Note B).

#### **Concentration of Credit Risk**

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

## STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

### NOTES TO FINANCIAL STATEMENTS

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#### C. FUTURE INSTALLMENT PRIZE AMOUNTS (CONTINUED)

##### **Concentration of Credit Risk (Continued)**

A significant portion (in excess of 5% of total) of the Division of State Lottery's investment in annuity contracts at June 30, 2024 and 2023, is invested with each of the following six companies:

- Delaware Life
- New York Life Insurance Co.
- Protective Life
- AuguStar Financial
- Metropolitan Life
- State Street

#### D. LITIGATION

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

#### E. COMMITMENTS

##### **Contractual Arrangements**

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

On June 20, 2013, a competitively bid 15-year contract was awarded to NSNJ to provide sales and marketing services to the Division of State Lottery. NSNJ is owned directly by two members (1) Scientific Games New Jersey, LLC, and (2) Northstar New Jersey Holding Company, LLC, and indirectly by three companies: (1) IGT Corporation, and (2) OSI LTT NJ Holdings Inc., which are the members of Northstar New Jersey Holding Company, LLC, and (3) Scientific Games International, Inc., which is the owner of Scientific Games New Jersey, LLC. The base services commenced on October 1, 2013. The contract required NSNJ to bid net income targets for each fiscal year of the 15-year contract. An amendment signed on December 31, 2015, revised the income level and targets downward for contract years 3 through 15. The amended contract provided for an allowance of \$2.5 million from Northstar NJ to the Division of State Lottery as an additional consideration for the terms contained therein. On May 3, 2019, the Division of State Lottery amended the service agreement with Northstar. Amendment 4 revised the formula for calculating the incentive payment owed to Northstar in fiscal year 2019, and increased the performance targets that are used to calculate any incentive payment to Northstar for the remaining 10 years of the Northstar Contract, thereby creating a higher performance bar to be reached before Northstar receives an incentive payment. If NSNJ meets or exceeds the net income target for a given fiscal year, they can earn an incentive payment or alternatively, if they do not meet the net income target, they are assessed a penalty.

## STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

### NOTES TO FINANCIAL STATEMENTS

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#### **E. COMMITMENTS (CONTINUED)**

For fiscal year 2024, NSNJ met its amended contractual net income target resulting in an incentive payment of \$21,840,889 to NSNJ. For fiscal year 2023, NSNJ met its amended contractual net income target resulting in an incentive payment of \$28,342,083 to NSNJ. Due to the implementation of GASB Statement No. 101, as discussed in Note I, and restatement of certain account balances, the Northstar incentive payment for fiscal year 2023 is overstated by \$133,421 and correspondingly, the Northstar incentive payment for fiscal year 2024 is understated by \$133,421, with a net impact of \$0 between fiscal year 2023 and 2024.

Prior to the beginning of each fiscal year, the Division of State Lottery and Northstar NJ agree to an annual business plan that includes the projected operating expenses of Northstar NJ for the fiscal year. Each month NSNJ may invoice the Division of State Lottery one twelfth (1/12) of the total operating expenses for the fiscal year. Each monthly invoice is accompanied by detailed backup data and information supporting expenses incurred. At the end of the fiscal year, Northstar NJ operating expenses are aggregated and reconciled with any excess returned to the Division of State Lottery. The Northstar NJ expenses for services to the Division of State Lottery amounted to \$48,065,144 and \$49,084,828 for the years ended June 30, 2024 and 2023, 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.

#### **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 (the "State") 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 Annual Comprehensive Financial Report. As such, the liability of the Division of State Lottery's employees is covered under the State plan on an annual basis. Please refer to State website [www.state.nj.us/treasury/pensions/annrpts.shtml](http://www.state.nj.us/treasury/pensions/annrpts.shtml) for more information regarding the plan.

#### **G. PENSION PLAN**

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

The Division of State Lottery's total covered payroll for the years ended June 30, 2024 and 2023, was \$6,535,437 and \$5,874,267, respectively. The State's 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, 2024 and 2023, the contribution rate was 7.5%.

# STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

## NOTES TO FINANCIAL STATEMENTS

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### G. PENSION PLAN (CONTINUED)

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](http://www.state.nj.us/treasury/pensions).

### H. ROUNDING

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

### I. CHANGE IN ACCOUNTING PRINCIPLE AND PRIOR PERIOD RESTATEMENT

Effective June 30, 2024, the Lottery implemented GASB Statement No. 101, "*Compensated Absences*". The requirements of this Statement improve financial reporting by enhancing the transparency and consistency of the Lottery's financial statements through the recognition of compensated absences liabilities and expenses in accordance with the new standards. This Statement requires governments to recognize a liability for compensated absences when the obligation is incurred and to measure the liability based on the pay or salary rates in effect at the financial statement date.

Under GASB Statement No. 101, the Lottery is required to recognize compensated absences liabilities for vacation leave, sick leave, and other forms of leave, as well as the corresponding expense. The initial implementation of this Statement resulted in the recognition of additional liabilities for compensated absences that were not previously recorded under the prior standards. Consequently, net position was restated by \$(667,107) to retrospectively record the compensated absences liability and to fully recognize the related prior period expenses as required by GASB Statement No. 101.

	Original Balance July 1, 2023	Restatement	Balance Restated July 1, 2023
Compensated absences payable	\$ 735,961	\$ 667,107	\$ 1,403,068
Administrative expenses	12,111,756	667,107	12,778,863
Net position	862,863	(667,107)	195,756

### J. PENDING GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS

The GASB has issued Statement No. 103, "*Financial Reporting Model Improvements*." This statement is required to be adopted by the Division of State Lottery for the year ending June 15, 2025. The Division of State Lottery has not determined the effect of Statement No. 103 on the financial statements.

The GASB has issued Statement No. 104, "*Disclosure of Certain Capital Assets*." This statement is required to be adopted by the Division of State Lottery for the year ending June 15, 2025. The Division of State Lottery has not determined the effect of Statement No. 104 on the financial statements.

## **SUPPLEMENTARY INFORMATION**

# STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

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

Year Ended June 30, 2024

	Budget (Unaudited)	Actual	Variance (Unfavorable) Favorable
Operating revenues			
Ticket sales			
Pick 3 Fireball	\$ 397,600,000	\$ 389,405,725	\$ (8,194,275)
Pick 4 Fireball	254,000,000	236,274,666	(17,725,334)
Jersey Cash 5 Xtra	157,600,000	139,344,796	(18,255,204)
Pick 6 Double Play	68,000,000	80,121,041	12,121,041
CASH4LIFE Doubler	64,700,000	63,398,011	(1,301,989)
Mega Millions	209,600,000	259,147,204	49,547,204
Powerball	244,500,000	369,616,337	125,116,337
Quick Draw	100,200,000	96,330,930	(3,869,070)
Fast Play	55,800,000	63,299,202	7,499,202
Cash Pop	58,900,000	61,346,050	2,446,050
Scratch-offs (Instant Games)	2,245,000,000	2,059,683,950	(185,316,050)
Sales discounts/tickets provided as prizes	(200,300,000)	(185,858,822)	14,441,178
Total Ticket Sales	<u>3,655,600,000</u>	<u>3,632,109,090</u>	<u>(23,490,910)</u>
Other revenues			
Forfeited prizes	43,800,000	41,861,482	(1,938,518)
Miscellaneous	1,500,000	1,141,934	(358,066)
Total operating revenues	<u>3,700,900,000</u>	<u>3,675,112,506</u>	<u>(25,787,494)</u>
Operating expenses			
Prize expenses	2,227,838,400	2,157,643,437	70,194,963
Retailer commissions	214,773,630	213,898,477	875,153
Instant ticket vendor printing fees	28,399,200	25,650,789	2,748,411
Gaming system vendor fees	40,486,950	40,103,580	383,370
Northstar NJ management fee	5,847,000	5,847,000	-
Northstar NJ manager expenses	18,600,000	15,635,789	2,964,211
Northstar NJ advertising & marketing expenses	26,600,000	26,582,355	17,645
Administration expenses	16,641,099	14,341,975	2,299,124
Multi-state fees	125,000	102,908	22,092
Drawing broadcast fees	1,200,000	1,147,412	52,588
Bad debt expense	550,000	114,109	435,891
Total operating expenses	<u>2,581,061,279</u>	<u>2,501,067,831</u>	<u>79,993,448</u>
Operating income	1,119,838,721	1,174,044,675	54,205,954
Non-operating revenue	3,200,000	20,277,511	17,077,511
Income before transfer	<u>1,123,038,721</u>	<u>1,194,322,186</u>	<u>71,283,465</u>
Northstar NJ incentive payment	(9,037,161)	(21,840,889)	(12,803,728)
Lease Amortization	-	-	-
Income available for transfer	<u>1,114,001,560</u>	<u>1,172,481,297</u>	<u>58,479,737</u>
Transfers out - contributions for state aid to education and state institutions	<u>1,114,000,000</u>	<u>1,172,000,000</u>	<u>58,000,000</u>
Change in net position	1,560	481,297	479,737
Net position, beginning of year, as restated	195,756	195,756	-
Net position, end of year	<u>\$ 197,316</u>	<u>\$ 677,053</u>	<u>\$ 479,737</u>

See independent auditors' report.

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

**SCHEDULE OF NET POSITION**

		As of June 30, 2024		
ASSETS		Treasury	Pension Fund L	Total
<u>Current Assets:</u>				
Cash		\$ -	\$ 89,414	\$ 89,414
Accounts receivable, net of allowance for doubtful accounts of \$2,436,873 and \$2,397,423 in 2024 and 2023, respectively		-	16,530,965	16,530,965
Deferred Expenses		611,500	390,106	1,001,606
Investments:				
Deposit Fund Contracts		17,788,852	660,000	18,448,852
State of New Jersey Cash Management Fund		-	894,196,104	894,196,104
Total current assets		<u>18,400,352</u>	<u>911,866,589</u>	<u>930,266,941</u>
<u>Non Current Assets:</u>				
Investments - deposit fund contracts		154,346,278	8,288,823	162,635,101
Total non-current assets		<u>154,346,278</u>	<u>8,288,823</u>	<u>162,635,101</u>
Total Assets		<u>\$ 172,746,630</u>	<u>\$ 920,155,412</u>	<u>\$ 1,092,902,042</u>
LIABILITIES				
<u>Current Liabilities:</u>				
Accounts payable and accrued expenses		\$ 1,099,679	\$ 61,161,753	\$ 62,261,432
Obligation for unpaid prize awards		-	713,317,500	713,317,500
Installment prize awards		17,788,852	660,000	18,448,852
Due to State Of New Jersey - Treasury Out		-	134,000,000	134,000,000
Total current liabilities		<u>18,888,531</u>	<u>909,139,253</u>	<u>928,027,784</u>
<u>Non Current Liabilities:</u>				
Compensated absences		-	1,562,104	1,562,104
Installment prize awards		154,346,278	8,288,823	162,635,101
Total non current liabilities		<u>154,346,278</u>	<u>9,850,927</u>	<u>164,197,205</u>
Total Liabilities		<u>173,234,809</u>	<u>918,990,180</u>	<u>1,092,224,989</u>
NET POSITION				
Restricted for prize awards or contributions to State		500,000	650,955	1,150,955
Unrestricted		(988,179)	514,277	(473,902)
Total Net Position		<u>\$ (488,179)</u>	<u>\$ 1,165,232</u>	<u>\$ 677,053</u>

# STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

## SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Year Ended June 30, 2024		
	Treasury	Pension Fund L	Total
Operating revenues			
Ticket Sales			
Pick 3 Fireball	\$ -	\$ 389,405,725	\$ 389,405,725
Pick 4 Fireball	-	236,274,666	236,274,666
Jersey Cash 5 Xtra	-	139,344,796	139,344,796
Pick 6 Double Play	-	80,121,041	80,121,041
CASH4LIFE Doubler	-	63,398,011	63,398,011
Mega Millions	-	259,147,204	259,147,204
Powerball	-	369,616,337	369,616,337
Quick Draw	-	96,330,930	96,330,930
Fast Play	-	63,299,202	63,299,202
Cash Pop	-	61,346,050	61,346,050
Scratch-offs (instant games)	-	2,059,683,950	2,059,683,950
Sales discounts	-	(185,858,822)	(185,858,822)
Total ticket sales	-	3,632,109,090	3,632,109,090
Other revenues			
Forfeited prizes	-	41,861,482	41,861,482
Miscellaneous	-	1,141,934	1,141,934
Total operating revenues	-	3,675,112,506	3,675,112,506
Operating expenses			
Prize expenses	-	2,157,643,437	2,157,643,437
Retailer commissions	130,561	213,767,916	213,898,477
Instant ticket vendor printing fees	-	25,650,789	25,650,789
Gaming system vendor fees	-	40,103,580	40,103,580
Northstar NJ management fee	-	5,847,000	5,847,000
Northstar NJ manager expenses	-	15,635,789	15,635,789
Northstar NJ advertising and marketing expenses	-	26,582,355	26,582,355
Administration expenses	-	14,341,975	14,341,975
Multi-state fees	-	102,908	102,908
Drawing broadcast fees	-	1,147,412	1,147,412
Bad debt expense	-	114,109	114,109
Total operating expenses	130,561	2,500,937,270	2,501,067,831
Operating income	(130,561)	1,174,175,236	1,174,044,675
Non-operating revenue			
Interest	-	20,277,511	20,277,511
Income before transfers out	(130,561)	1,194,452,747	1,194,322,186
Northstar NJ incentive payment	-	(21,840,889)	(21,840,889)
Income available for transfer	(130,561)	1,172,611,858	1,172,481,297
Transfers out			
Contributions to pensions	-	1,172,000,000	1,172,000,000
Total transfers out	-	1,172,000,000	1,172,000,000
Changes in net position	(130,561)	611,858	481,297
Net position, beginning of year, as restated	(357,618)	553,374	195,756
Net position, end of year	\$ (488,179)	\$ 1,165,232	\$ 677,053

See independent auditors' report.

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

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

	Years Ended June 30,	
	2024	2023
ULTIMATE \$1,000,000 SPECTACULAR	\$ 147,711,540	\$ 71,673,060
POWER 50X	96,875,250	124,297,770
\$50,000 LOADED	84,554,280	-
\$1,000,000 DIAMOND SPECTACULAR	80,854,960	-
\$1,000,000 SPECTACULAR	72,392,610	-
\$20,000 LOADED	58,620,820	-
POWER 20X	55,167,120	45,395,260
COLOSSAL CROSSWORD	50,638,320	-
\$1,000,000 PLATINUM PAYOUT	48,137,440	-
CROSSWORD BONANZA	46,982,880	-
CROSSWORD BONANZA	43,243,400	-
\$10,000 LOADED	39,553,890	-
CROSSWORD	35,788,518	4,560,345
\$50,000 LOADED	35,707,860	126,656,640
\$500,000 GOLD PAYOUT	33,646,790	-
\$250,000 CROSSWORD	33,563,330	-
LUCKY 7'S MULTIPLIER	32,672,300	67,433,240
WINTER WINNINGS	29,497,090	-
\$50,000,000 EXPLOSION	28,850,260	-
CROSSWORD	26,407,455	-
WIN EITHER \$100 OR \$200	26,059,540	28,932,360
WIN FOR LIFE	25,307,406	-
SUPER CROSSWORD	25,143,705	-
POWER 10X	25,076,820	32,621,700
CROSSWORD BONANZA	24,727,300	22,325,880
SUPER CROSSWORD	24,573,310	-
\$1,000,000 SPECTACULAR	24,121,150	57,649,110
\$500 FRENZY	23,607,885	-
BIG MONEY SPECTACULAR	23,288,228	-
BIG CASH	22,536,510	-
\$250,000 CROSSWORD	21,545,670	13,898,720
FULL OF \$500	21,490,335	-
COLOSSAL CROSSWORD	21,408,060	-
BIG MONEY SPECTACULAR	21,059,882	2,227,552
THE BIGGER \$PIN	20,078,370	17,620,130
10X BINGO MULTIPLIER	19,922,990	-
HIGH CARD POKER	19,887,505	-
\$5,000 LOADED	19,871,520	-
9'S IN A LINE	19,786,405	-
JUMBO BUCKS	19,497,825	-
CROSSWORD GOLD	19,340,427	-
SILVER PAYOUT	18,991,725	-
\$250,000 CROSSWORD	18,876,990	-

See independent auditors' report.

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

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

	Years Ended June 30,	
	2024	2023
LOTERIA GRANDE	18,847,460	3,070,535
PEPPERMINT PAYOUT X20	17,021,140	-
YEAR OF THE DRAGON	16,049,850	-
SUPER CROSSWORD	15,966,060	-
MONEY BOX BINGO	15,556,150	-
RED 7'S DOUBLER	15,514,610	-
PLU\$ THE MONEY	14,737,745	-
TRIPLE GOLDEN CHERRIES	14,699,430	-
LUCKY 7'S TRIPLER	13,865,320	46,389,030
LOTERIA	13,334,328	-
EXTREME CASH	12,207,780	34,510,980
CASH BLAST	11,794,510	6,224,270
\$100,000 LUCKY BINGO	11,398,715	7,013,315
\$1,000,000 DIAMOND SPECTACULAR	11,338,580	88,384,240
MERRY MONEY MULTIPLIER	11,111,072	-
WIN FOR LIFE	10,959,810	26,188,704
IT'S A JERSEY THING	10,916,460	-
LOTERIA	10,681,407	5,015,319
THE JERSEY DEBATE	10,646,830	10,872,230
\$500 FRENZY	10,629,870	11,908,855
CROSSWORD BONANZA	10,517,760	-
\$2,000 LOADED	9,518,138	-
LOTERIA GRANDE	9,337,855	-
SUPER 8'S	8,875,650	36,572,710
MYSTERY MULTIPLIER	8,790,314	-
POWER 5X	8,754,935	18,049,930
POWER PLAY	8,632,660	-
WILD CASH	8,399,520	-
SUPER 50X	8,334,840	14,136,020
CROSSWORD BONANZA	8,239,320	35,191,520
LOOSE CHANGE	7,905,374	-
HIT \$50	7,825,376	-
\$10,000 BRONZE PAYOUT	7,738,192	-
LADY LUCK 7'S	7,412,590	12,577,675
SUPER CROSSWORD	6,743,065	19,648,035
BLACKJACK TRIPLER	6,720,792	1,857,100
LOOSE CHANGE	6,531,241	1,452,786
GNOME FOR THE HOLIDAYS	6,211,620	-
HIT \$200!	6,165,790	16,259,255
IT TAKES 2	5,476,500	-
WILD CASH MULTIPLIER	4,994,570	14,497,075

See independent auditors' report.

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

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

	Years Ended June 30,	
	2024	2023
CASH CLIMB	4,495,822	6,352,574
LOOSE CHANGE	4,376,818	-
POWER 2X	4,204,876	7,744,648
FAST \$50'S	2,821,048	8,942,932
BIG MONEY SPECTACULAR	2,799,100	-
TRIPLE DOUBLE DIAMOND	2,701,290	17,085,690
BIRTHDAY SURPRISE	2,634,448	3,860,976
HIGH CARD POKER	2,606,805	25,574,855
BIRTHDAY SURPRISE	1,995,796	-
LUCKY 7'S	1,949,388	11,548,148
RED BALL TRIPLER	1,840,744	-
SCORCHING HOT7S	1,727,550	8,749,860
BIG MONEY SPECTACULAR	1,390,120	23,609,030
CROSSWORD	1,384,059	39,743,052
WHEEL OF FORTUNE	837,535	2,961,440
\$3,000,000 PLATINUM CLUB	605,310	109,113,720
QUICK 7'S	559,902	7,409,595
BEAN BAG BUCKS	505,010	1,623,725
CASH LINE BINGO	379,815	20,535,665
LOTERIA GRANDE	375,195	22,022,420
\$250,000 CROSSWORD	273,720	35,301,010
WILD 10'S	266,435	20,644,385
LUCKY 7'S DOUBLER	250,690	26,517,490
CASH	199,015	1,537,825
\$10,000 BALLOONING BUCKS	189,818	7,404,428
LOTERIA	173,070	15,522,360
CROSSWORD MULTIPLIER	144,345	19,105,299
\$1,000,000 GOLD CLUB	112,400	60,429,660
SUPER CROSSWORD	79,490	25,995,840
\$500 FRENZY	73,960	25,197,320
7-11-21 10 X	71,726	12,734,848
CROSSWORD BONANZA	47,900	47,319,520
\$1,000,000 RICHES	47,360	22,980,300
WIN EITHER \$100 OR \$200	28,640	18,686,100
\$50 AND \$100 BLOWOUT	20,070	7,486,100
WINTER WISHES	20,000	29,763,380
LOTERIA	18,900	-
\$500,000 SILVER CLUB	11,350	25,707,730
\$1,000,000 SPECTACULAR	9,910	39,704,820
SUMMER FUN	7,108	1,263,802
RUBY/EMERALD/SAPPHIRE MINE 20X	6,620	1,146,850

See independent auditors' report.

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

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

	Years Ended June 30,	
	2024	2023
NEON CASH PARTY	5,400	-
THE BIG SPIN	4,090	7,134,290
BIG MONEY SPECTACULAR	3,032	23,320,180
\$250,000 CROSSWORD	2,860	34,645,030
QUICK 7'S	2,504	7,265,913
SUPER CROSSWORD	2,385	25,998,295
PEPPERMINT PAYOUT	1,945	17,022,055
EASY AS 123	1,800	-
\$200,000 COPPER CLUB	1,505	6,446,920
\$NOW ME THE MONEY	1,208	9,969,134
\$100,000 LIGHTNING BINGO	1,200	-
SLEIGH BILL\$	1,140	6,056,371
BINGO BONUS SQUARE	605	18,726,310
DAZZLING DIAMOND SPECTACULAR	-	(580)
\$52,000,000 GOLD PAYOUT	-	(260)
\$90,000,000 PLATINUM PAYOUT	-	(1,000)
SUPER MONEY MULTIPLIER	-	358,200
FAST MONEY	-	(1,192)
LUCKY TIMES 20	-	419,465
POWER 5s	-	469,080
SUPER TRIPLE 777	-	(1,030)
HIT \$500!	-	60
HIT \$2,000!	-	203,120
BIRTHDAY SURPRISE	-	(188)
DIAMOND RICHES	-	384,415
MONEY MULTIPLIER	-	6,384
100X THE MONEY BONUS	-	(3,980)
\$500,000 FORTUNE	-	(2,680)
SUPER 50	-	(560)
LUCKY STARS	-	6,826
LOTERIA GRANDE	-	(70)
CROSSWORD	-	(300)
\$100,000 BINGO TRIPLER	-	(1,060)
CROSSWORD BONANZA	-	(40)
\$20,000 RICHES	-	(18)
\$200,000 RICHES	-	(300)
\$500,000 RICHES	-	(3,200)
BIG MONEY SPECTACULAR	-	(288)
MONEY BAG MULTIPLIER	-	(2,976)
CASH LINE BINGO	-	(2,439)

See independent auditors' report.

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

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

	Years Ended June 30,	
	2024	2023
MONEY STASH	-	(7,086)
WIN FOR LIFE	-	(5,319)
SUPER TIC TAC TOE BONUS	-	14,355
SUPER CROSSWORD	-	(305)
POCKET CHANGE	-	(496)
ROSES & RICHES	-	(2,206)
HIGH CARD POKER	-	(4,960)
HOT 7S	-	19,462
FLAMING HOT 7S	-	28,255
BIG MONEY SPECTACULAR	-	(3,510)
CROSSWORD	-	(3,537)
LOTERIA	-	(1,524)
CROSSWORD BONANZA	-	(400)
CASH BLAST	-	(2,000)
\$500 FRENZY	-	(1,785)
CASH CLIMB	-	(5,062)
LOTERIA	-	19,392
WILD 10'S	-	(2,585)
LOTERIA GRANDE	-	8,075
\$500 FRENZY	-	9,340
SUPER CROSSWORD	-	(4,845)
\$250,000 CROSSWORD	-	(1,900)
MULTIPLIER MANIA	-	50,220
EMERALD 8'S	-	5,870
BINGO TIMES 10	-	3,815
QUICK \$50s	-	13,200
CASH BLAST	-	872,770
\$250,000 CROSSWORD	-	(1,250)
SUPER CROSSWORD	-	4,925
10X THE CASH	-	102,972
CROSSWORD BONANZA	-	(6,920)
\$250,000 CROSSWORD	-	(3,380)
FESTIVE \$50s	-	4,252
HOLIDAY LUCKY TIMES 10	-	14,624
HOLIDAY DELIGHT	-	4,930
\$100 DOUBLER	-	311,492
SUPER CROSSWORD	-	86,685
\$250,000 CROSSWORD	-	5,050
CROSSWORD BONANZA	-	99,060
\$250,000 CROSSWORD	-	12,960
\$250,000 CROSSWORD	-	2,651,960
BIG MONEY SPECTACULAR	(4)	2,426,028

See independent auditors' report.

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

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

	Years Ended June 30,	
	2024	2023
BLAZING HOT 7S	(140)	5,421,860
LOOSE CHANGE	(200)	476,548
\$1,000,000 SPECTACULAR	(300)	2,574,230
24 KARAT GOLD	(300)	818,200
20X THE CASH	(300)	204,015
DIAMONDS AND GOLD DOUBLER	(420)	310,240
SUPER CROSSWORD	(465)	6,187,105
\$3,000,000 ULTIMATE RICHES	(600)	451,620
LADY LUCK MULTIPLIER	(630)	1,332,400
CROSSWORD BONANZA	(700)	40,447,800
RED 7'S DOUBLER	(705)	8,372,690
BIG MONEY SPECTACULAR	(716)	2,113,330
\$100,000 BANKROLL BINGO	(785)	4,423,170
LOTERIA GRANDE	(795)	6,821,705
100X THE CASH	(800)	2,899,760
BIRTHDAY SURPRISE	(814)	1,198,792
CROSSWORD	(897)	176,832
QUICK 7s	(995)	935,448
BLACKJACK TRIPLER	(1,128)	8,864,424
HIGH CARD POKER	(1,195)	2,925,915
MONEY VAULT	(1,330)	2,017,695
JUMBO BUCK	(1,355)	7,006,995
DIAMONDS AND DOLLARS	(1,500)	301,580
CROSSWORD BONANZA	(1,600)	3,897,820
\$3,000,000 MEGA BUCKS	(1,890)	11,973,360
\$500 FRENZY	(1,945)	7,661,875
CASH PLUS	(2,070)	2,309,245
WIN FOR LIFE	(2,124)	12,148,599
CROSSWORD	(2,127)	25,114,122
RAGING HOT 7s	(2,160)	12,956,700
\$10,000 TITANIUM CLUB	(2,280)	3,412,076
50X THE CASH	(2,610)	4,207,470
WILD CASH	(3,200)	2,805,688
CASH BLAST	(4,270)	18,488,040
LOTERIA	(4,467)	7,045,491
PRIOR YEAR GAME	(9,965)	(15,678)
	<u>\$ 2,059,683,950</u>	<u>\$ 2,169,846,419</u>

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

**SCHEDULES OF ADMINISTRATIVE EXPENSES**

	Years Ended June 30,	
	2024	2023 *
Salaries	\$ 7,377,311	\$ 7,333,023
Fringe benefits	2,000,000	-
Printing and office supplies	39,689	71,625
Vehicular supplies	1,071	1,017
Household and clothing	22,229	17,215
Travel	81,766	103,825
Telephone	146,715	129,483
Postage	47,073	43,708
Data processing	821,327	764,722
Household and security	262,072	267,602
Professional services	1,124,396	1,001,312
Other professional services	347,500	326,296
Data processing - OIT	303,022	140,553
Maintenance - building and grounds	9,523	18,671
Maintenance - office equipment	46,202	36,093
Rent - building and grounds	1,058,506	1,147,273
Central motor pool	98,362	86,489
Rent - Other	895	-
Vehicular equipment	-	10,054
Other equipment	456,822	1,115,087
Information processing equipment	9,752	77,069
Amortization	87,744	87,744
Total administrative expenses	<u>\$ 14,341,975</u>	<u>\$ 12,778,863</u>

\* Certain account balances have been restated to conform with current year presentation.

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

**SCHEDULE OF NORTHSTAR NJ NET INCOME TARGETS (UNAUDITED)**

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<u>Year</u>	<u>Fiscal Year</u>	<u>Net Income Target</u>
Year 1 (Stub Year)	2014	\$ 760,897,061
Year 2	2015	1,047,000,000
Year 3	2016	963,478,103
Year 4	2017	990,513,343
Year 5	2018	1,009,871,643
Year 6	2019	1,023,544,636
Year 7	2020	1,082,203,750
Year 8	2021	1,094,774,507
Year 9	2022	1,104,531,442
Year 10	2023	1,114,374,966
Year 11	2024	1,124,767,787
Year 12	2025	1,135,239,702
Year 13	2026	1,145,794,655
Year 14	2027	1,156,420,946
Year 15	2028	1,167,131,650
Year 16	2029	1,177,921,943

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the State of New Jersey, Division of State Lottery (the "Division of State Lottery") as of and for the year ended June 30, 2024, and the related notes to financial statements, which comprise the Division of State Lottery's basic financial statements, as listed in the table of contents and have issued our report thereon dated December 11, 2024.

**Report on Internal Control Over Financial Reporting**

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

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

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

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

**Report on Compliance and Other Matters**

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

**Purpose of this Report**

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

*Mercadion, P.C.*

*Certified Public Accountants*

December 11, 2024

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

**SCHEDULE OF CURRENT YEAR FINDINGS AND RECOMMENDATIONS**

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None reported.

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

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

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None reported.