

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

Financial Statements
and Supplementary Information

June 30, 2023

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

Table of Contents

June 30, 2023

	<u>Page Number</u>
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	1
INDEPENDENT AUDITORS' REPORT	9
BASIC FINANCIAL STATEMENTS	
STATEMENTS OF NET POSITION.....	12
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION.....	13
STATEMENTS OF CASH FLOWS	14
NOTES TO FINANCIAL STATEMENTS	15
SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION – BUDGET AND ACTUAL	24
SCHEDULE OF NET POSITION	25
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION	26
SCHEDULES OF SCRATCH-OFFS (INSTANT GAMES) REVENUES.....	27
SCHEDULES OF ADMINISTRATIVE EXPENSES	33
OTHER INFORMATION	
SCHEDULE OF [REDACTED] NJ NET INCOME TARGETS (UNAUDITED)	34
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	35
Schedule of Current Year Findings and Recommendations.....	37
Summary Schedule of Prior Year Audit Findings.....	38

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

INTRODUCTION

The following discussion and analysis provides an analytical overview of the financial position and activities of the State of New Jersey, Division of State Lottery (the "Division of State Lottery") for the years ended June 30, 2023 and 2022. 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 \$3.727 billion in fiscal year 2023, the highest in New Jersey Lottery history. The net proceeds to the State were also the highest in New Jersey Lottery history and totaled \$1.173 billion. Sales increased 2.5% from fiscal year 2022 to fiscal year 2023, and the contribution increased 5.5%, respectively. Prizes awarded to New Jersey Lottery players, the Division of State Lottery's largest expense item, totaled \$2.230 billion. Commissions paid to New Jersey Lottery retailers, the Division of State Lottery's second largest expense item, totaled \$220 million, compared to \$213 million in fiscal year 2022.

The Division of State Lottery's financial position at June 30, 2023 and 2022, consisted of total assets of \$506 million and \$496 million, respectively, and total liabilities of \$505 million and \$495 million, respectively. A substantial portion of the asset and liability amounts for the year ended June 30, 2023, 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, 2023 and 2022, were \$194 million and \$207 million, respectively. Net position decreased from \$1,291,013 in fiscal year 2022 to \$862,864 for fiscal year 2023.

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

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

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

INTRODUCTION (CONTINUED)

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

Prior to implementation of the LECA (July 1, 2017), the Lottery underwent a valuation as an asset of the eligible pension plans. The purpose of the valuation was to ensure that the lottery revenues anticipated by the LECA for the duration of the act, were reasonable. The LECA requires that the Lottery be re-valued every 5 years. The first such re-valuation was conducted in fiscal year 2022. 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 ██████████ New Jersey, LLC ("██████████" to provide sales and marketing services to the Division of State Lottery for the purpose of increasing lottery sales and net income ("the ██████████ Contract"). ██████████ commenced providing these services to the Division of State Lottery on October 1, 2013. The ██████████ Contract expires on June 30, 2029.

██████████ is reimbursed for operational and marketing costs it incurs on behalf of the Division of State Lottery. Under the ██████████ Contract, if defined net income targets for a given fiscal year are met or exceeded, ██████████ 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 ██████████ may owe a contribution shortfall payment to the Division of State Lottery. ██████████ did exceed the net income targets under the contract for fiscal year 2023 and consequently is owed an incentive payment by the Division of State Lottery of \$28,342,083. In fiscal year 2022, ██████████ did meet the net income targets under the contract and was paid \$19,314,696 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, 2023 and 2022, statements of revenues, expenses and changes in net position for years ended June 30, 2023 and 2022, and statements of cash flows for years ended June 30, 2023 and 2022. 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 2023, 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
	2023	2022	2021	2023- 2022	2023- 2022
Current Assets	\$ 333	\$ 310	\$ 285	\$ 22	7.2%
Non-Current Assets	173	186	199	(13)	(6.8%)
Total Assets	506	496	484	10	1.9%
Current Liabilities	331	309	284	23	7.4%
Non-Current Liabilities	174	186	199	(13)	(6.8%)
Total Liabilities	505	495	483	10	2.0%
Restricted Net Position	1.2	1.6	1.2	(0.4)	(24.8%)
Unrestricted Net Position	(0.4)	(0.3)	(1.1)	(0.0)	7.2%
Total Net Position	\$ 0.9	\$ 1.3	\$ 0.1	(0.4)	(33.2%)

Current assets consist of cash and investment in the State of New Jersey Cash Management Fund (the "NJCMF"), accounts receivable, current year annuity investments, and deferred expenses. The investment in the NJCMF totaled \$295 million and \$246 million at June 30, 2023 and 2022, respectively.

The Division of State Lottery funds long-term installment prizes with insurance company annuities and United States Treasury securities. The total value of these investments was \$194 million and \$207 million as of June 30, 2023 and 2022, respectively. The Division of State Lottery has annuity investments with eleven insurance companies. The total market value of the United States Treasury securities was \$29 million and \$34 million at June 30, 2023 and 2022, respectively. The annuities due beyond fiscal years 2023 and 2022 total \$173 million and \$185 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 \$20 million and \$21 million as of June 30, 2023 and 2022, 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 at the annuitized amount 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	% Change
	2023	2022	2021	2023- 2022	2023- 2022
Restricted (Unclaimed Prize Reserves)	\$ 1.2	\$ 1.6	\$ 1.2	\$ (0.4)	(24.8%)
Unrestricted	(0.4)	(0.3)	(1.1)	(0.0)	7.2%
Total Net Position	<u>\$ 0.9</u>	<u>\$ 1.3</u>	<u>\$ 0.1</u>	(0.4)	(33.2%)

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, ████████ 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 reduced by \$0.4 million from fiscal year 2022 to 2023.

Statements of Revenues, Expenses and Changes in Net Position

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

	June 30,			\$ Change	% Change
	2023	2022	2021	2023- 2022	2023- 2022
Operating revenues					
Ticket Sales	\$ 3,727	\$ 3,634	\$ 3,684	\$ 93	2.6%
Forfeited Prizes	\$ 44	\$ 49	\$ 28	\$ (4)	(8.9%)
Miscellaneous Income	\$ 1	\$ 2	\$ 1	\$ (1)	(35.3%)
Total operating revenue	<u>\$ 3,773</u>	<u>\$ 3,685</u>	<u>\$ 3,713</u>	\$ 88	2.4%
Operating expenses					
Prize expenses	\$ 2,230	\$ 2,209	\$ 2,245	\$ 21	1.0%
Retailer commissions	\$ 220	\$ 213	\$ 214	\$ 7	3.2%
Northstar NJ fees and expenses	\$ 49	\$ 49	\$ 45	\$ 0	0.4%
Vendor fees	\$ 68	\$ 67	\$ 68	\$ 1	1.0%
Administration expenses	\$ 13	\$ 15	\$ 13	\$ (2)	(13.0%)
Bad debt expense	\$ -	\$ -	\$ 1	\$ -	
Total Operating Expenses	<u>\$ 2,581</u>	<u>\$ 2,554</u>	<u>\$ 2,586</u>	\$ 27	1.1%
Operating Income	<u>\$ 1,192</u>	<u>\$ 1,131</u>	<u>\$ 1,127</u>	\$ 61	5.4%
Non-Operating (expenses) revenue	<u>\$ (19)</u>	<u>\$ (19)</u>	<u>\$ (23)</u>	\$ (1)	2.8%
Income before transfers out	<u>\$ 1,173</u>	<u>\$ 1,112</u>	<u>\$ 1,104</u>	\$ 60	5.4%
Operating transfers - State contributions	<u>\$ 1,173</u>	<u>\$ 1,111</u>	<u>\$ 1,105</u>	\$ 62	5.6%
(Decrease) increase in net position	<u>\$ (0.4)</u>	<u>\$ 1.2</u>	<u>\$ (1.0)</u>	\$ (2)	(137.0%)

Total Lottery ticket sales for fiscal year 2023 were \$3.727 billion, a 2.6% increase from fiscal year 2022, when sales were \$3.634 billion.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

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

FINANCIAL STATEMENTS (CONTINUED)

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

The Division of State Lottery is required by the State Lottery Law to contribute a minimum of 30% of net revenues from ticket sales to the State of New Jersey. The Division of State Lottery contributed to the State pension system \$1.173 billion (31.5% of net revenues) in fiscal year 2023 and \$1.111 billion (30.6% of net revenues) in fiscal year 2022. The amount contributed to public pensions in fiscal year 2023 was the highest in New Jersey Lottery history, and a \$62 million increase over the fiscal year 2022 contribution. The increased profitability was due to strong Powerball and Mega Millions Sales throughout the year, with both games benefitting from several large jackpots, including three jackpots that exceeded \$1 billion. Notwithstanding the strong performance of Powerball and Mega Millions, the Division of State Lottery is focused on the performance of Pick 3 and Pick 4, which have evidenced a long term trend 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 \$2.170 billion during fiscal year 2023, a decrease of 1.4% from \$2.201 billion in fiscal year 2022. Sales of scratch-offs totaled \$2.201 billion during fiscal year 2022, an increase of 0.8% from \$2.184 billion in fiscal year 2021.

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 and the multi-state jackpot games Cash4Life Doubler, Powerball, and Mega Millions. In fiscal year 2023, draw game sales totaled \$1.729 billion compared to \$1.577 billion in fiscal year 2022, an increase of 9.6%.

The Division of State Lottery's largest expense consists of prizes awarded to players. The Division of State Lottery awarded approximately \$2.230 billion in prizes in fiscal year 2023 and approximately \$2.209 billion in fiscal year 2022.

The Division of State Lottery's second largest expense is retailer commissions. Retailers are paid a commission of 5% on all Lottery sales and a commission of 1.25% for cashing winnings. The Division of State Lottery returned \$220 million and \$213 million to our network of nearly 7,000 retailers in fiscal years 2023 and 2022, respectively. Both prize expense and retailer commissions are functions of total sales, and as sales increase, those expenses also increase.

The Division of State Lottery's expenses also include several different vendor expenses. [REDACTED] has subcontracts with various vendors for the operation of the Division of State Lottery's gaming system and the production of scratch-offs. [REDACTED] 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 \$40.9 million and \$39.7 million in fiscal years 2023 and 2022, 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 increased slightly compared to fiscal year 2022, similar to prize and commission expenses.

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)

Scratch-offs printing costs are calculated primarily on the value of scratch-offs tickets sold. There may be additional costs for individual scratch-offs games, such as licensing fees or special features of an actual ticket. Scratch-offs printing fees totaled \$27.1 million in fiscal year 2023, a slight decrease from the \$27.7 million in fiscal year 2022. The slight decrease is attributable to the decline in sales year over year.

██████████ is the sales and marketing vendor for the Division of State Lottery. ██████████ 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, ██████████ is also responsible for managing certain key subcontracts. ██████████ management fees and expenses in fiscal years 2023 and 2022, were \$21.1 million and \$20.9 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 ██████████ fees and expenses do not include incentive compensation paid to ██████████ as explained below.

Marketing and advertising expenses for the Division of State Lottery were static from fiscal year 2023 and fiscal year 2022, remaining at just under \$28 million respectively. Marketing and advertising expenses are separate from the management fees described above and are paid by ██████████ 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 2023 and 2022 were \$12 million and \$14 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 decreased in fiscal year 2023 because 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 Division of State Lottery has continued to perform several core functions of lottery operations following execution of the contract with ██████████. 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 2023, the Division of State Lottery had a total of \$19.1 million in non-operating expenses. This figure includes an incentive payment to ██████████ in the amount of \$28.3 million. The Division of State Lottery had \$9.2 million in non-operating revenue. The non-operating revenue consisted of \$8.9 million in interest earnings and a \$0.3 million adjustment related to the recently enacted Government Accounting Standards Board ("GASB") Statement No. 87 requirements. 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 2022, the Division of State Lottery had a total of \$18.7 million in non-operating expenses. This figure includes an incentive payment to ██████████ in the amount of \$19.3 million which was offset by \$0.1 million in GASB Statement No. 87 adjustments and by \$0.5 million in non-operating revenue consisting entirely of interest earnings.

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)

Incentive compensation paid to ██████ is classified as a non-operating expense. If there is a shortfall payment owed by ██████ to the Division of State Lottery, it would be classified as non-operating income. ██████ is paid incentive compensation if the Division of State Lottery achieves certain net income targets during the fiscal year. ██████ 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.

In fiscal year 2019, the Division of State Lottery amended ("Amendment 4") the service agreement with ██████. Amendment 4 revised the formula for calculating the incentive payment owed to ██████ in that year, and increased the performance targets that are used to calculate any incentive payment to ██████ for the remainder of the Contract, thereby creating a higher performance bar to be reached before ██████ receives an incentive payment. Amendment 4 accounts for the increased sales generated by newer games. Since its inception and including fiscal year 2023, Amendment 4 has reduced the cumulative incentive payment to ██████ by more than \$36 million.

The calculation of the incentive compensation for fiscal year 2023 is set forth in the table below and is based on Schedule 10.2 of the ██████ Contract and Amendment 4. Schedule 10.2, Section 2 provides in general terms that ██████ 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 ██████ 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 2023 of \$1,114,374,966. The actual amount of net income earned in 2023 was \$1,200,696,910 which was greater than the net income target, resulting in an incentive payment.

Under Amendment 4, there are two target income bands that are used to calculate incentive compensation, for each remaining year of the ██████ Contract. For fiscal year 2023, Amendment 4 set a Base Level Income target of \$916,994,175. Under the Base Level Income band, ██████ 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 2023, this amount was \$9,466,155. Amendment 4 set a Middle Level Income Target of \$1,106,317,265. Under the Middle Level Income Band, ██████ is entitled to receive 20% of that portion of Net Income that exceeds the Middle Level Income for that year. For fiscal year 2023, this amount was \$18,875,929. Thus, the total incentive pay earned by ██████ was \$28,342,083. In fiscal year 2022, the total incentive pay earned by ██████ was \$19,314,696. The incentive pay owed to ██████ increased due to the net income exceeding the net income target by \$86 million or 7.7%. Over time, the structure of Amendment 4 anticipates a decreasing incentive payment.

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 ██████ Contract establishes top and bottom caps on ██████ incentive compensation, and total incentive compensation to ██████ 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 2023.

The calculation is outlined in the table below.

INCENTIVE PAYMENTS BANDS	FY 2023
Above Base Level, Below Middle Level	5.0%
Above Middle Level, Below Upper Level	20.0%
Operating Income Levels	
Base Level Income	\$ 916,994,175
Middle Level Income	\$1,106,317,265
Lottery Management Agreement Net Income	\$1,200,696,910
Incentive Payments	
Above Base, Below Middle	\$ 9,466,155
Above Middle	<u>\$ 18,875,929</u>
Subtotal Incentive Payment	\$ 28,342,083
High Cap (Actual Net Income X 3%)	<u>\$ 36,020,907</u>
Total Incentive Payments	<u>\$ 28,342,083</u>

Statements of Cash Flows

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

	June 30,			\$ Change	% Change
	2023	2022	2021	2023- 2022	2023- 2022
Cash flows from operating activities	\$ 1,228	\$ 1,127	\$ 1,135	\$ 101	8.9%
Cash flows from non-capital financing activities	\$ (1,167)	\$ (1,090)	\$ (1,164)	\$ (77)	7.1%
Cash flows from investing activities	\$ (60)	\$ (37)	\$ 29	\$ (23)	62.2%
Net increase (decrease) in cash	<u>\$ 1</u>	<u>\$ (0)</u>	<u>\$ 0</u>	<u>\$ 1</u>	- %

CONTACTING THE DIVISION'S FINANCIAL MANAGEMENT

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

INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

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

Report on the Audits 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, 2023 and 2022, and the related notes to financial statements, which comprise the Division of State Lottery's basic financial statements as listed in the table of contents.

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, 2023 and 2022, 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 audits in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Division of State Lottery and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 Audits 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 audits were conducted for the purpose of forming an opinion on the financial statements that comprise the Division of State Lottery's basic financial statements. The accompanying 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 [REDACTED] NJ Net Income Targets, as listed in the table of contents but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 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.

Mercadieu, P.C.
Certified Public Accountants

January 22, 2024

BASIC FINANCIAL STATEMENTS

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

STATEMENTS OF NET POSITION

	June 30,	
	2023	2022
ASSETS		
<u>Current Assets:</u>		
Cash	\$ 797,024	\$ 159,898
Accounts receivable, net of allowance for doubtful accounts of \$2,397,423 and \$2,659,665 in 2023 and 2022, respectively	13,920,084	41,315,280
Deferred Expenses	1,861,934	1,701,452
Investments:		
Deposit Fund Contracts	20,544,204	21,367,704
State of New Jersey Cash Management Fund	295,468,593	245,666,525
Total current assets	<u>332,591,839</u>	<u>310,210,859</u>
<u>Non Current Assets:</u>		
Investments - deposit fund contracts	173,073,632	185,447,089
Right of Use Asset	251,087	616,135
Total non-current assets	<u>173,324,719</u>	<u>186,063,224</u>
Total Assets	<u>\$ 505,916,558</u>	<u>\$ 496,274,083</u>
LIABILITIES		
<u>Current Liabilities:</u>		
Accounts payable and accrued expenses	\$ 62,780,060	\$ 55,191,592
Obligation for unpaid prize awards	115,668,749	105,402,741
Installment prize awards	20,544,204	21,367,704
Lease Payable	251,087	583,202
Due to State of New Jersey	132,000,000	126,000,000
Total current liabilities	<u>331,244,100</u>	<u>308,545,239</u>
<u>Non Current Liabilities:</u>		
Compensated absences	735,962	740,783
Lease Payable	-	249,958
Installment prize awards	173,073,632	185,447,089
Total non current liabilities	<u>173,809,594</u>	<u>186,437,830</u>
Total Liabilities	<u>505,053,694</u>	<u>494,983,069</u>
NET POSITION		
Restricted for prize awards or contributions	1,226,333	1,630,204
Unrestricted	(363,469)	(339,190)
Total Net Position	<u>\$ 862,864</u>	<u>\$ 1,291,014</u>

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Years Ended June 30,	
	2023	2022
Operating revenues		
Ticket Sales		
Pick 3 Fireball	\$ 398,223,613	\$ 432,405,725
Pick 4 Fireball	250,833,332	274,862,465
Jersey Cash 5 Xtra	137,293,281	157,439,813
Pick 6 Double Play	65,138,369	62,868,070
CASH4LIFE Doubler	62,677,360	58,975,403
Mega Millions	293,645,609	147,238,717
Powerball	308,624,548	241,001,378
Quick Draw	101,117,331	112,115,435
Fast Play	52,998,150	40,180,302
Raffles	-	4,025,060
Cash Pop	58,635,133	46,159,886
Scratch-offs (Instant Games)	2,169,846,419	2,201,022,844
Sales Discounts/Tickets Provided as Prizes	(172,084,577)	(144,141,921)
Total Ticket Sales	3,726,948,568	3,634,153,177
Other revenues		
Forfeited prizes	44,498,494	48,868,631
Miscellaneous	1,057,356	1,634,748
Total operating revenues	3,772,504,417	3,684,656,555
Operating expenses		
Prize expenses	2,230,286,382	2,209,064,696
Retailer commissions	219,957,459	213,167,242
Instant ticket vendor printing fees	27,109,005	27,670,944
Gaming system vendor fees	40,939,920	39,672,435
NJ management fee	5,728,500	5,610,000
NJ manager expenses	15,388,458	15,339,888
NJ advertising and marketing expenses	27,967,870	27,946,787
Administration expenses	12,111,756	14,154,300
Multi-state fees	123,724	85,722
Drawing broadcast fees	1,146,504	1,136,409
Total operating expenses	2,580,759,577	2,553,848,423
Operating Income	1,191,744,840	1,130,808,132
Non-operating revenues		
Interest income	8,952,069	538,226
Income Before Transfers	1,200,696,909	1,131,346,358
NJ incentive payment	(28,342,083)	(19,314,696)
Lease amortization	217,025	125,452
Income available for transfer	1,172,571,851	1,112,157,114
Transfers out -		
Contributions to Pensions	1,173,000,000	1,111,000,000
Changes in net position	(428,149)	1,157,114
Net position, beginning of year	1,291,013	133,899
Net position, end of year	\$ 862,864	\$ 1,291,013

See notes to financial statements.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

STATEMENTS OF CASH FLOWS

	Years Ended June 30,	
	2023	2022
Cash Flows from Operating Activities		
Sales to customers	\$ 1,785,808,291	\$ 1,614,268,704
Payments for prize awards	(429,508,225)	(364,062,587)
Payments for vendor commissions and fees	(117,756,663)	(116,477,901)
Payments to suppliers	(14,536,200)	(11,995,895)
Other payments	(205,639)	(157,532)
Cash flows from annuity operations		
Annuity receipts	21,256,528	21,546,584
Payments of annuity prizes	(17,256,271)	(16,022,828)
Net cash from operating activities	<u>1,227,801,821</u>	<u>1,127,098,545</u>
Cash Flows from Non-Capital Financing Activities		
Contributions to State	<u>(1,167,000,000)</u>	<u>(1,090,085,000)</u>
Cash Flows from Investing Activities		
Cash Management Fund proceeds	1,638,550,000	1,494,985,000
Cash Management Fund purchases	(1,679,400,000)	(1,508,700,000)
Payments from/to ████████ NJ	(19,314,696)	(23,373,282)
Net cash from investing activities	<u>(60,164,696)</u>	<u>(37,088,282)</u>
Net change in cash	637,125	(74,737)
Cash, beginning of year	159,899	234,636
Cash, end of year	<u>\$ 797,024</u>	<u>\$ 159,899</u>
Reconciliation of operating income to net cash from		
Operating activities		
Operating Income	\$ 1,191,744,840	\$ 1,130,808,132
Changes in assets and liabilities		
Accounts receivable	27,395,196	(11,223,064)
Investments - deposit fund contracts	13,196,957	12,586,044
Other assets	330,019	(1,284,564)
Accounts payable and accrued expenses	(1,438,921)	7,073,386
Obligation for unpaid prize awards	(2,930,949)	(11,830,625)
Lease Payable	(490,500)	958,612
Compensating absences	(4,821)	10,624
Net cash from operating activities	<u>\$ 1,227,801,821</u>	<u>\$ 1,127,098,545</u>

See notes to financial statements.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

Basis of Accounting

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

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

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

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

Use of Estimates

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

State of New Jersey Cash Management Fund

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

Accounts Receivable

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

Installment Prize Awards and Prize Expenses

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

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Installment Prize Awards and Prize Expenses (Continued)

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

Equipment

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

Net Position

Restricted

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

Unrestricted

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

Revenue Recognition

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

- "Pick-3 Fireball", "Pick-4 Fireball", "Jersey Cash 5 Xtra", "Pick 6 Double Play", "Mega Millions", "Powerball", "CASH4LIFE Doubler", "Quick Draw", "Cash Pop" and "Raffles" 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

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.

██████ New Jersey Lottery Group, LLC ("██████ 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, 2023 and 2022. The Division of State Lottery's deposits with Wells Fargo are insured by the Federal Deposit Insurance Corporation up to \$250,000.

	June 30,	
	2023	2022
Wells Fargo	\$ 796,524	\$ 159,398
Total	\$ 796,524	\$ 159,398

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, 2023 and 2022:

	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

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

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS

C. FUTURE INSTALLMENT PRIZE AMOUNTS

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

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

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

According to the Division of State Lottery's calculation, only one company does not meet the criteria, that of Delaware Life, formerly Sun Life Assurance; as of June 30, 2023 and 2022, Delaware Life had annuity contracts totaling approximately \$16,722,258 and \$18,321,600, respectively. However, due to the long-term nature of these contracts, the credit quality of the issuer is subject to change.

At June 30, 2023 and 2022, the Division of State Lottery held insurance company annuity contracts issued through nine insurance companies, totaling \$164,930,259 and \$173,168,904, 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, 2023 and 2022, the Division of State Lottery had \$28,687,577 and \$33,645,888, respectively, in U.S. treasuries included in guaranteed annuity contracts (see Note B).

Concentration of Credit Risk

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

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS

C. FUTURE INSTALLMENT PRIZE AMOUNTS (CONTINUED)

Concentration of Credit Risk (Continued)

A significant portion (in excess of 5% of total) of the Division of State Lottery's investment in annuity contracts at June 30, 2023 and 2022, is invested with each of the following four companies:

- Ohio National Life
- New York Life Insurance Co.
- Protective Life
- Metropolitan Life

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 ████████ NJ on October 1, 2013, and expires concurrent with ████████ 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) ████████ 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 ████████ 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 ████████ 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 ████████ Amendment 4 revised the formula for calculating the incentive payment owed to ████████ in fiscal year 2019, and increased the performance targets that are used to calculate any incentive payment to ████████ for the remaining 10 years of the ████████ Contract, thereby creating a higher performance bar to be reached before ████████ receives an incentive payment. If NSNJ meets or exceeds the net income target for a given fiscal year, they can earn an incentive payment or alternatively, if they do not meet the net income target, they are assessed a penalty.

For fiscal year 2023, NSNJ met its amended contractual net income target resulting in an incentive payment of \$28,342,083 to NSNJ. For fiscal year 2022, NSNJ met its amended contractual net income target resulting in an incentive payment of \$19,314,696 to NSNJ.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS

E. COMMITMENTS (CONTINUED)

Contractual Arrangements (Continued)

Prior to the beginning of each fiscal year, the Division of State Lottery and ██████ NJ agree to an annual business plan that includes the projected operating expenses of ██████ 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, ██████ NJ operating expenses are aggregated and reconciled with any excess returned to the Division of State Lottery. The ██████ NJ expenses for services to the Division of State Lottery amounted to \$49,084,828 and \$48,896,675 for the years ended June 30, 2023 and 2022, respectively.

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

Operating Leases

Lease	Date	Payment Terms	Annual Payment Amount	Interest Rate	Total Lease Liability	Balance June 30, 2023
Rental of Office Space	12/1/2003	20 years	\$ 605,913	4.00%	\$ 251,087	\$ 251,087

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

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

Year Ending June 30,	Principal	Interest	Total
2024	\$ 251,087	\$ 1,376	\$ 252,463
	\$ 251,087	\$ 1,376	\$ 252,463

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 for more information regarding the plan.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS

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, 2023 and 2022, was \$5,874,267 and \$5,730,121, 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, 2023 and 2022, the contribution rate was 7.5%.

The State of New Jersey, Division of Pensions and Benefits, issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State of New Jersey, Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295 or by visiting their website at: www.state.nj.us/treasury/pensions.

H. ROUNDING

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

I. PENDING GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS

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

SUPPLEMENTARY INFORMATION

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

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

Year Ended June 30, 2023

	Budget (Unaudited)	Actual	Variance (Unfavorable) Favorable
Operating revenues			
Ticket sales			
Pick 3 Fireball	\$ 438,100,000	\$ 398,223,613	\$ (39,876,387)
Pick 4 Fireball	281,700,000	250,833,332	(30,866,668)
Jersey Cash 5 Xtra	165,000,000	137,293,281	(27,706,719)
Pick 6 Double Play	63,200,000	65,138,369	1,938,369
CASH4LIFE Doubler	63,000,000	62,677,360	(322,640)
Mega Millions	179,700,000	293,645,609	113,945,609
Powerball	204,400,000	308,624,548	104,224,548
Quick Draw	112,700,000	101,117,331	(11,582,669)
Fast Play	41,700,000	52,998,150	11,298,150
Cash Pop	56,400,000	58,635,133	2,235,133
Scratch-offs (Instant Games)	2,253,500,000	2,169,846,419	(83,653,581)
Sales discounts/tickets provided as prizes	(179,900,000)	(172,084,577)	7,815,423
Total Ticket Sales	3,679,500,000	3,726,948,568	47,448,568
Other revenues			
Forfeited prizes	39,500,000	44,498,493	4,998,493
Miscellaneous	1,500,000	1,057,356	(442,644)
Total operating revenues	3,720,500,000	3,772,504,417	52,004,417
Operating expenses			
Prize expenses	2,252,701,700	2,230,286,381	22,415,319
Retailer commissions	214,968,580	219,957,459	(4,988,879)
Instant ticket vendor printing fees	28,602,560	27,109,005	1,493,555
Gaming system vendor fees	40,523,700	40,939,920	(416,220)
NJ management fee	5,727,000	5,728,500	(1,500)
NJ manager expenses	18,300,000	15,388,458	2,911,542
NJ advertising & marketing expenses	28,000,000	27,967,870	32,130
Administration expenses	15,201,000	12,111,756	3,089,244
Multi-state fees	150,000	123,724	26,276
Drawing broadcast fees	1,175,000	1,146,504	28,496
Bad debt expense	550,000	-	550,000
Total operating expenses	2,605,899,540	2,580,759,577	25,139,963
Operating income	1,114,600,460	1,191,744,840	77,144,380
Non-operating revenue	466,000	8,952,069	8,486,069
Income before transfer	1,115,066,460	1,200,696,909	85,630,449
NJ incentive payment	(11,215,994)	(28,342,083)	(17,126,089)
Lease Amortization	-	217,025	(217,025)
Income available for transfer	1,103,850,466	1,172,571,851	68,721,385
Transfers out - contributions for state aid to education and state institutions	1,103,850,000	1,173,000,000	69,150,000
Change in net position	466	(428,149)	(428,615)
Net position, beginning of year	1,291,013	1,291,013	-
Net position, end of year	\$ 1,291,479	\$ 862,864	\$ (428,615)

See independent auditors' report.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

SCHEDULE OF NET POSITION

		As of June 30, 2023		
		Treasury	Pension Fund L	Total
ASSETS				
<u>Current Assets:</u>				
Cash		\$ -	\$ 797,024	\$ 797,024
Accounts receivable, net of allowance for doubtful accounts of \$2,397,423 and \$2,659,665 in 2023 and 2022, respectively		(270,638)	14,190,722	13,920,084
Deferred Expenses		1,343,088	518,846	1,861,934
Investments:				
Deposit Fund Contracts		19,884,204	660,000	20,544,204
State of New Jersey Cash Management Fund		-	295,468,593	295,468,593
Total current assets		<u>20,956,654</u>	<u>311,635,185</u>	<u>332,591,839</u>
<u>Non Current Assets:</u>				
Investments - deposit fund contracts		164,175,782	8,897,850	173,073,632
Right of Use Asset		-	251,087	251,087
Total non-current assets		<u>164,175,782</u>	<u>9,148,937</u>	<u>173,324,719</u>
Total Assets		<u>\$ 185,132,436</u>	<u>\$ 320,784,122</u>	<u>\$ 505,916,558</u>
LIABILITIES				
<u>Current Liabilities:</u>				
Accounts payable and accrued expenses		\$ 1,430,068	\$ 61,349,992	\$ 62,780,060
Obligation for unpaid prize awards		-	115,668,749	115,668,749
Installment prize awards		19,884,204	660,000	20,544,204
Lease Payable		-	251,087	251,087
Due to State Of New Jersey - Treasury Out		-	132,000,000	132,000,000
Total current liabilities		<u>21,314,272</u>	<u>309,929,828</u>	<u>331,244,100</u>
<u>Non Current Liabilities:</u>				
Compensated absences		-	735,962	735,962
Installment prize awards		164,175,782	8,897,850	173,073,632
Total non current liabilities		<u>164,175,782</u>	<u>9,633,812</u>	<u>173,809,594</u>
Total Liabilities		<u>185,490,054</u>	<u>319,563,640</u>	<u>505,053,694</u>
NET POSITION				
Restricted for prize awards or contributions to State		500,000	726,333	1,226,333
Unrestricted		(857,618)	494,149	(363,469)
Total Net Position		<u>\$ (357,618)</u>	<u>\$ 1,220,482</u>	<u>\$ 862,864</u>

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Year Ended June 30, 2023		
	Treasury	Pension Fund L	Total
Operating revenues			
Ticket Sales			
Pick 3 Fireball	\$ -	\$ 398,223,613	\$ 398,223,613
Pick 4 Fireball	-	250,833,332	250,833,332
Jersey Cash 5 Xtra	-	137,293,281	137,293,281
Pick 6 Double Play	-	65,138,369	65,138,369
CASH4LIFE Doubler	-	62,677,360	62,677,360
Mega Millions	-	293,645,609	293,645,609
Powerball	-	308,624,548	308,624,548
Quick Draw	-	101,117,331	101,117,331
Fast Play	-	52,998,150	52,998,150
Cash Pop	-	58,635,133	58,635,133
Scratch-offs (instant games)	-	2,169,846,419	2,169,846,419
Sales discounts	-	(172,084,577)	(172,084,577)
Total ticket sales	-	3,726,948,568	3,726,948,568
Other revenues			
Forfeited prizes	-	44,498,494	44,498,494
Miscellaneous	-	1,057,356	1,057,356
Total operating revenues	-	3,772,504,418	3,772,504,418
Operating expenses			
Prize expenses	-	2,230,286,382	2,230,286,382
Retailer commissions	1,200,499	218,756,960	219,957,459
Instant ticket vendor printing fees	-	27,109,005	27,109,005
Gaming system vendor fees	-	40,939,920	40,939,920
██████ NJ management fee	-	5,728,500	5,728,500
██████ NJ manager expenses	-	15,388,458	15,388,458
██████ NJ advertising and marketing expenses	-	27,967,870	27,967,870
Administration expenses	-	12,111,756	12,111,756
Multi-state fees	-	123,724	123,724
Drawing broadcast fees	-	1,146,504	1,146,504
Total operating expenses	1,200,499	2,579,559,079	2,580,759,578
Operating income	(1,200,499)	1,192,945,339	1,191,744,840
Non-operating revenue			
Interest	-	8,952,069	8,952,069
Income before transfers out	(1,200,499)	1,201,897,408	1,200,696,909
██████ NJ incentive payment	-	(28,342,083)	(28,342,083)
Lease Amortization	-	217,025	217,025
Income available for transfer	(1,200,499)	1,173,772,350	1,172,571,851
Transfers out			
Contributions to pensions	-	1,173,000,000	1,173,000,000
Total transfers out	-	1,173,000,000	1,173,000,000
Changes in net position	(1,200,499)	772,350	(428,149)
Net position, beginning of year	842,881	448,132	1,291,013
Net position, end of year	\$ (357,618)	\$ 1,220,482	\$ 862,864

See independent auditors' report.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

SCHEDULES OF SCRATCH-OFFS (INSTANT GAMES) REVENUES

	Years Ended June 30,	
	2023	2022
\$50,000 LOADED	\$ 126,656,640	\$ -
POWER 50X	124,297,770	-
\$3,000,000 PLATINUM CLUB	109,113,720	100,372,380
\$1,000,000 DIAMOND SPECTACULAR	88,384,240	27,257,880
ULTIMATE \$1,000,000 SPECTACULAR	71,673,060	-
LUCKY 7'S MULTIPLIER	67,433,240	-
\$1,000,000 GOLD CLUB	60,429,660	54,554,000
\$1,000,000 SPECTACULAR	57,649,110	-
CROSSWORD BONANZA	47,319,520	-
LUCKY 7'S TRIPLER	46,389,030	-
POWER 20X	45,395,260	-
CROSSWORD BONANZA	40,447,800	4,692,900
CROSSWORD	39,743,052	-
\$1,000,000 SPECTACULAR	39,704,820	54,415,000
SUPER 8'S	36,572,710	9,411,640
\$250,000 CROSSWORD	35,301,010	-
CROSSWORD BONANZA	35,191,520	-
\$250,000 CROSSWORD	34,645,030	1,185,600
EXTREME CASH	34,510,980	57,991,480
POWER 10X	32,621,700	-
WINTER WISHES	29,763,380	-
WIN EITHER \$100 OR \$200	28,932,360	-
LUCKY 7'S DOUBLER	26,517,490	-
WIN FOR LIFE	26,188,704	-
SUPER CROSSWORD	25,998,295	-
SUPER CROSSWORD	25,995,840	-
\$500,000 SILVER CLUB	25,707,730	38,664,820
HIGH CARD POKER	25,574,855	-
\$500 FRENZY	25,197,320	-
CROSSWORD	25,114,122	15,437,571
BIG MONEY SPECTACULAR	23,609,030	-
BIG MONEY SPECTACULAR	23,320,180	1,246,736
\$1,000,000 RICHES	22,980,300	45,401,680
CROSSWORD BONANZA	22,325,880	-
LOTERIA GRANDE	22,022,420	-
WILD 10'S	20,644,385	-
CASH LINE BINGO	20,535,665	-
SUPER CROSSWORD	19,648,035	-
CROSSWORD MULTIPLIER	19,105,299	-
BINGO BONUS SQUARE	18,726,310	2,846,425
WIN EITHER \$100 OR \$200	18,686,100	53,474,060
CASH BLAST	18,488,040	-
POWER 5X	18,049,930	-
THE BIGGER \$PIN	17,620,130	-
TRIPLE DOUBLE DIAMOND	17,085,690	-
PEPPERMINT PAYOUT	17,022,055	-
HIT \$200!	16,259,255	-
LOTERIA	15,522,360	-

See independent auditors' report.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

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

	Years Ended June 30,	
	2023	2022
WILD CASH MULTIPLIER	14,497,075	-
SUPER 50X	14,136,020	26,984,790
\$250,000 CROSSWORD	13,898,720	-
RAGING HOT 7s	12,956,700	94,248,570
7-11-21 10 X	12,734,848	-
LADY LUCK 7'S	12,577,675	-
WIN FOR LIFE	12,148,599	21,654,882
\$3,000,000 MEGA BUCKS	11,973,360	92,953,440
\$500 FRENZY	11,908,855	-
LUCKY 7'S	11,548,148	-
THE JERSEY DEBATE	10,872,230	-
\$NOW ME THE MONEY	9,969,134	-
FAST \$50'S	8,942,932	-
BLACKJACK TRIPLER	8,864,424	-
SCORCHING HOT7S	8,749,860	23,692,360
RED 7'S DOUBLER	8,372,690	14,595,325
POWER 2X	7,744,648	-
\$500 FRENZY	7,661,875	18,163,395
\$50 AND \$100 BLOWOUT	7,486,100	26,429,270
QUICK 7'S	7,409,595	-
\$10,000 BALLOONING BUCKS	7,404,428	1,309,496
QUICK 7'S	7,265,913	388,178
THE BIG SPIN	7,134,290	16,614,975
LOTERIA	7,045,491	8,550,546
\$100,000 LUCKY BINGO	7,013,315	-
JUMBO BUCK	7,006,995	10,763,175
LOTERIA GRANDE	6,821,705	13,787,765
\$200,000 COPPER CLUB	6,446,920	16,026,135
CASH CLIMB	6,352,574	-
CASH BLAST	6,224,270	-
SUPER CROSSWORD	6,187,105	20,288,490
SLEIGH BILL\$	6,056,371	-
BLAZING HOT 7S	5,421,860	46,197,940
LOTERIA	5,015,319	-
CROSSWORD	4,560,345	-
\$100,000 BANKROLL BINGO	4,423,170	23,208,330
50X THE CASH	4,207,470	62,701,380
CROSSWORD BONANZA	3,897,820	42,790,680
BIRTHDAY SURPRISE	3,860,976	-
\$10,000 TITANIUM CLUB	3,412,076	9,448,434
LOTERIA GRANDE	3,070,535	-
WHEEL OF FORTUNE	2,961,440	13,177,920
HIGH CARD POKER	2,925,915	21,623,040
100X THE CASH	2,899,760	118,300,120
WILD CASH	2,805,688	6,097,698
\$250,000 CROSSWORD	2,651,960	32,831,160
\$1,000,000 SPECTACULAR	2,574,230	33,822,710
BIG MONEY SPECTACULAR	2,426,028	19,697,130

See independent auditors' report.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

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

	Years Ended June 30,	
	2023	2022
CASH PLUS	2,309,245	17,319,225
BIG MONEY SPECTACULAR	2,227,552	-
BIG MONEY SPECTACULAR	2,113,330	22,331,718
MONEY VAULT	2,017,695	15,900,215
BLACKJACK TRIPLER	1,857,100	-
BEAN BAG BUCKS	1,623,725	10,325,250
CASH	1,537,825	3,012,495
LOOSE CHANGE	1,452,786	-
LADY LUCK MULTIPLIER	1,332,400	12,008,310
SUMMER FUN	1,263,802	5,485,854
BIRTHDAY SURPRISE	1,198,792	4,603,622
RUBY/EMERALD/SAPPHIRE MINE 20X	1,146,850	2,048,440
QUICK 7s	935,448	7,185,325
CASH BLAST	872,770	29,950,020
24 KARAT GOLD	818,200	8,300,100
LOOSE CHANGE	476,548	11,423,921
POWER 5s	469,080	1,642,495
\$3,000,000 ULTIMATE RICHES	451,620	67,993,830
LUCKY TIMES 20	419,465	1,441,055
DIAMOND RICHES	384,415	1,486,885
SUPER MONEY MULTIPLIER	358,200	1,046,550
\$100 DOUBLER	311,492	8,581,330
DIAMONDS AND GOLD DOUBLER	310,240	5,536,010
DIAMONDS AND DOLLARS	301,580	981,505
20X THE CASH	204,015	25,234,085
HIT \$2,000!	203,120	16,840,960
CROSSWORD	176,832	40,369,311
10X THE CASH	102,972	13,098,688
CROSSWORD BONANZA	99,060	47,856,760
SUPER CROSSWORD	86,685	25,350,740
MULTIPLIER MANIA	50,220	48,277,450
FLAMING HOT 7S	28,255	7,255,935
HOT 7S	19,462	4,508,606
LOTERIA	19,392	15,544,965
HOLIDAY LUCKY TIMES 10	14,624	11,783,514
SUPER TIC TAC TOE BONUS	14,355	8,526,920
QUICK \$50s	13,200	9,349,710
\$250,000 CROSSWORD	12,960	16,962,010
\$500 FRENZY	9,340	25,436,700
LOTERIA GRANDE	8,075	12,914,175
LUCKY STARS	6,826	902,414
MONEY MULTIPLIER	6,384	843,266
EMERALD 8'S	5,870	8,980,408
\$250,000 CROSSWORD	5,050	17,235,150
HOLIDAY DELIGHT	4,930	17,253,920
SUPER CROSSWORD	4,925	25,826,025
FESTIVE \$50s	4,252	5,934,732
BINGO TIMES 10	3,815	20,066,705

See independent auditors' report.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

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

	Years Ended June 30,	
	2023	2022
HIT \$500!	60	147,280
\$20,000 RICHES	(18)	312,634
CROSSWORD BONANZA	(40)	867,960
LOTERIA GRANDE	(70)	85,585
BIRTHDAY SURPRISE	(188)	54,710
\$52,000,000 GOLD PAYOUT	(260)	3,429,950
BIG MONEY SPECTACULAR	(288)	239,814
CROSSWORD	(300)	190,464
\$200,000 RICHES	(300)	214,040
SUPER CROSSWORD	(305)	604,230
CROSSWORD BONANZA	(400)	3,331,900
POCKET CHANGE	(496)	564,551
SUPER 50	(560)	571,250
DAZZLING DIAMOND SPECTACULAR	(580)	5,878,500
\$90,000,000 PLATINUM PAYOUT	(1,000)	6,863,580
SUPER TRIPLE 777	(1,030)	3,699,490
\$100,000 BINGO TRIPLER	(1,060)	2,160,150
FAST MONEY	(1,192)	294,434
\$250,000 CROSSWORD	(1,250)	5,268,160
LOTERIA	(1,524)	3,409,581
\$500 FRENZY	(1,785)	3,875,670
\$250,000 CROSSWORD	(1,900)	644,820
CASH BLAST	(2,000)	4,770,090
ROSES & RICHES	(2,206)	1,153,998
CASH LINE BINGO	(2,439)	3,038,379
WILD 10'S	(2,585)	6,382,810
\$500,000 FORTUNE	(2,680)	6,989,810
MONEY BAG MULTIPLIER	(2,976)	2,172,394
\$500,000 RICHES	(3,200)	9,143,740
\$250,000 CROSSWORD	(3,380)	17,335,630
BIG MONEY SPECTACULAR	(3,510)	14,746,738
CROSSWORD	(3,537)	25,528,104
100X THE MONEY BONUS	(3,980)	13,128,300
SUPER CROSSWORD	(4,845)	14,451,365
HIGH CARD POKER	(4,960)	8,974,685
CASH CLIMB	(5,062)	2,828,258
WIN FOR LIFE	(5,319)	16,547,424
CROSSWORD BONANZA	(6,920)	40,235,480
MONEY STASH	(7,086)	1,916,458
PRIOR YEAR GAME	(15,678)	(30,776)
\$200 MILLION CASH BONANZA	-	(5,490)
INSTANT CASH MILLIONAIRE	-	47,960
\$1,000,000 GOLD RUSH	-	(600)
RUBY RED RICHES	-	117,550
WILD TIME MULTIPLIER	-	(300)
LADY LUCK BONUS	-	(300)
MONEY MATCH	-	(2,765)
\$2,000,000 LUCKY 7S	-	(800)

See independent auditors' report.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

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

	Years Ended June 30,	
	2023	2022
\$3,000,000 CASH OUT	-	(5,175)
WIN FOR LIFE	-	3,000
\$18,000,000 SILVER PAYOUT	-	(830)
LUCKY TIMES 50	-	(1,730)
DOUBLE DOLLAR BINGO	-	(3,144)
SUMMER LUCKY TIMES 10	-	(1,250)
7 (THEME)	-	12,025
CASH BLAST	-	(300)
HIGH CARD POKER	-	(600)
TIC TAC TOE DOUBLER	-	(4,012)
\$25,000 CASH LINES	-	(1,380)
\$100,000 BINGO MULTIPLIER	-	(805)
200X THE MONEY BONUS	-	(14,550)
LOOSE CHANGE	-	(400)
HIT \$200!	-	(2,495)
LOOSE CHANGE	-	(859)
MEGA CROSSWORD	-	(1,600)
BINGO GOLD	-	(2,193)
HOLIDAY LUCKY TIMES 10	-	(300)
LOTERIA	-	(87)
CROSSWORD	-	(300)
WIN FOR LIFE	-	11,274
DOUBLE MATCH BONUS	-	(3,445)
\$1,000,000 SPECTACULAR	-	21,540
2020 CASH CELEBRATION	-	(1,290)
\$500 FRENZY	-	(5,090)
BIG MONEY SPECTACULAR	-	(1,202)
LOVE TO WIN \$50	-	8,544
BINGO BONUS SQUARE	-	16,590
MEGA CROSSWORD	-	(12,520)
-7-	-	26,295
SUPER CROSSWORD	-	(905)
10X THE MONEY BONUS	-	(3,778)
20X THE MONEY BONUS	-	(4,615)
50X THE MONEY BONUS	-	6,120
\$250,000 CROSSWORD	-	(600)
LUCKY 7s	-	(7,384)
LOTERIA	-	17,001
BIG MONEY SPECTACULAR	-	3,392
MONEY MADNESS	-	23,170
HIGH CARD POKER	-	7,675
POCKET CHANGE	-	4,796
CROSSWORD	-	(1,860)
SUPER CROSSWORD	-	(1,190)
QUICK \$100s	-	10,096
FAST CASH	-	(8,340)
\$250,000 CROSSWORD	-	(1,500)
DOUBLE MATCH	-	10,660

See independent auditors' report.

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

	Years Ended June 30,	
	2023	2022
FULL OF \$500s	-	9,955
\$250,000 CROSSWORD	-	(2,100)
SUPER CROSSWORD	-	9,800
HAPPY HOLIDAYS	-	4,428
HAPPY HOLIDAYS	-	71,796
HAPPY HOLIDAYS	-	8,315
\$250,000 CROSSWORD	-	3,450
7-11-21 10X	-	340,716
\$250,000 CROSSWORD	-	56,330
	<u>\$ 2,169,846,419</u>	<u>\$ 2,201,022,844</u>

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

SCHEDULES OF ADMINISTRATIVE EXPENSES

	Years Ended June 30,	
	2023	2022
Salaries	\$ 6,665,916	\$ 6,349,667
Fringe benefits	-	3,869,986
Printing and office supplies	71,625	47,734
Vehicular supplies	1,017	699
Household and clothing	17,215	18,598
Travel	103,825	55,731
Telephone	129,483	137,960
Postage	43,708	42,941
Data processing	764,722	682,978
Household and security	267,602	235,837
Professional services	1,001,312	940,848
Other professional services	326,296	420,511
Data processing - OIT	140,553	84,696
Maintenance - building and grounds	18,671	18,959
Maintenance - office equipment	36,093	12,548
Rent - building and grounds	1,147,273	875,337
Central motor pool	86,489	55,906
Vehicular equipment	10,054	-
Other equipment	1,115,087	238,175
Information processing equipment	77,069	18,996
Amortization	87,744	46,195
Total administrative expenses	<u>\$ 12,111,756</u>	<u>\$ 14,154,300</u>

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY**SCHEDULE OF [REDACTED] NJ NET INCOME TARGETS (UNAUDITED)**

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the State of New Jersey, Division of State Lottery (the "Division of State Lottery") as of and for the year ended June 30, 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 and have issued our report thereon dated January 22, 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

January 22, 2024

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

SCHEDULE OF CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None reported.

STATE OF NEW JERSEY, DIVISION OF STATE LOTTERY

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

None reported.