

ANNUAL REPORT
Fiscal Year 1989-90

**THE
NEW
YORK
LOTTERY**

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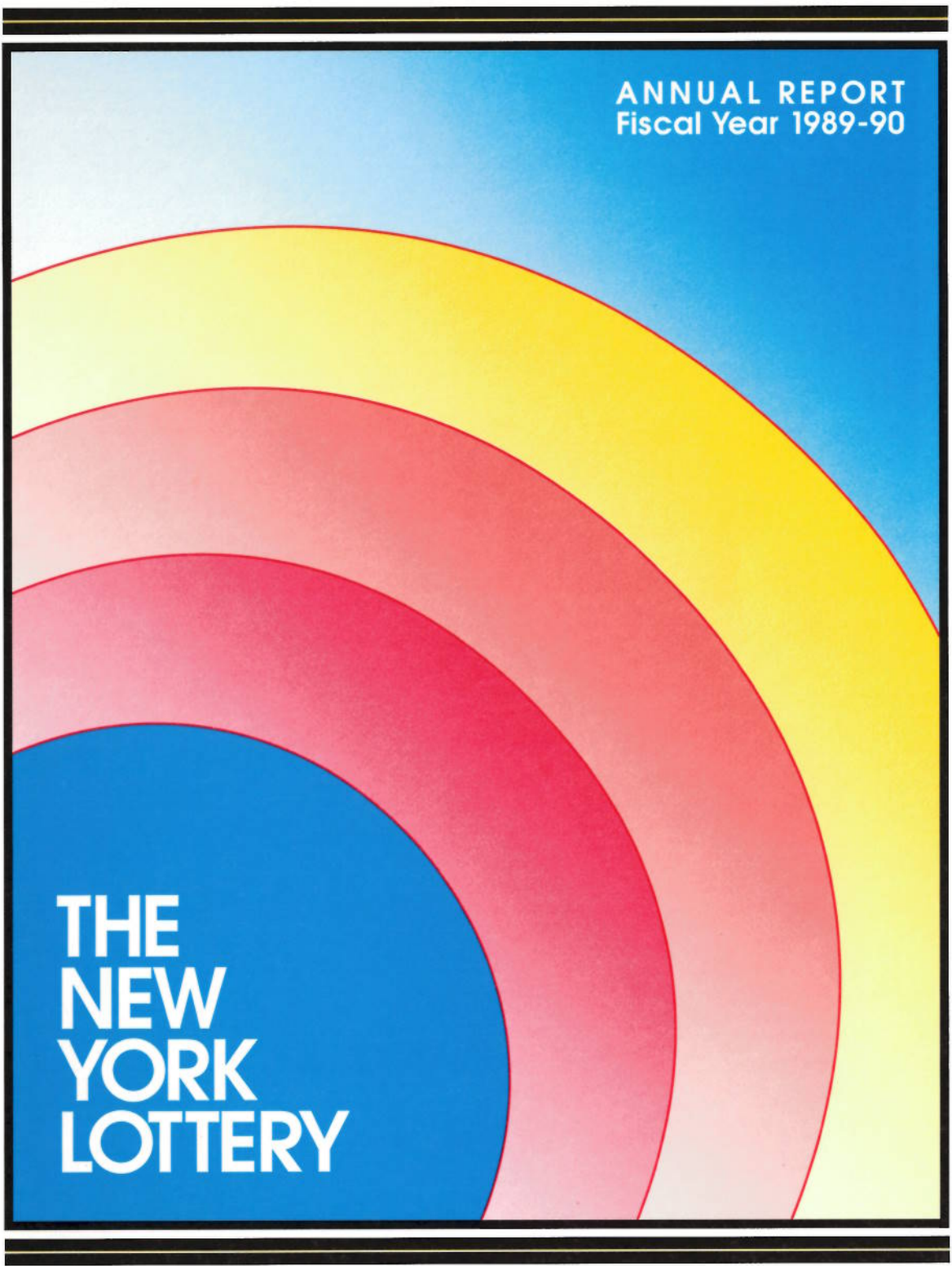




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A Message From The Director



On behalf of the New York State Lottery, I am proud to report that the 1989-90 fiscal year, ended March 31, 1990, resulted in ticket sales higher than those in any previous year in the Lottery's history. These results not only mark a decade of increased growth in Lottery sales and revenues, they also herald a record year in our commitment to education. Sales of more than \$2.058 billion generated \$928 million for New York's public schools.

In 1989-90, the New York Lottery delivered an average of \$2.54 million every day to support education in New York State.

In these difficult financial times, the Lottery is proud of its mission: to generate revenues to support education in New York State. Indeed, for the last several years, increased Lottery revenues for education contributed nearly 10 percent of the State's total aid-to-education funding.

Players of Lottery games also benefited in fiscal year 1989-90. They won a record \$1.039 billion in prizes. Forty-three new millionaires were added to the Lottery club—bringing total Lottery millionaire winners to nearly 700 from 1967-68 through 1989-90.

Lottery agents also enjoyed the strong sales of 1989-90 with commissions totaling \$123.5 million. Agents are important partners in the Lottery operation as the Lottery's sales link to players. More than 10,700 agents sell game tickets to players from newsstands, grocery stores, liquor and drug stores, and other retail outlets in every corner of the state.

To strengthen agent relations, expand the agent network and increase sales, plans were developed during the year to add 31 extra district sales representatives—a vital expansion of the Lottery team. Importantly, the Lottery also has a renewed emphasis on serving the needs of our customers—the players. Better serving the players also means continually striving to understand what players want and delivering games that are ever more exciting and easy to play.

For example, the Lottery increased the prize payout for SCRATCH-OFF games in 1989-90, and players love the change. Sales grew to \$202.5 million, a 28 percent increase in SCRATCH-OFF sales from the previous fiscal year. The frequency of SCRATCH-OFF introductions was increased to one every seven weeks, up from every twelve weeks, to meet players' demand for SCRATCH-OFF game fun.

People often ask me who plays the Lottery, and I tell them it's the average New Yorker—hard working, dedicated and looking to have a bit of fun. That's the spirit of the New York Lottery—committed, proud and making a little bit of fun for New Yorkers.

A handwritten signature in cursive script, reading "Peter D. Lynch". The signature is written in dark ink and is positioned above the printed name and title.

Peter D. Lynch
Director

THE NEW YORK LOTTERY IS . . .

. . . Profitable and Efficient

Financial Performance

For the first year in its history, the New York State Lottery broke the \$2 billion mark with ticket sales of \$2.058 billion in fiscal year 1989-90, an 11.4 percent increase over 1988-89 sales of \$1.847 billion.

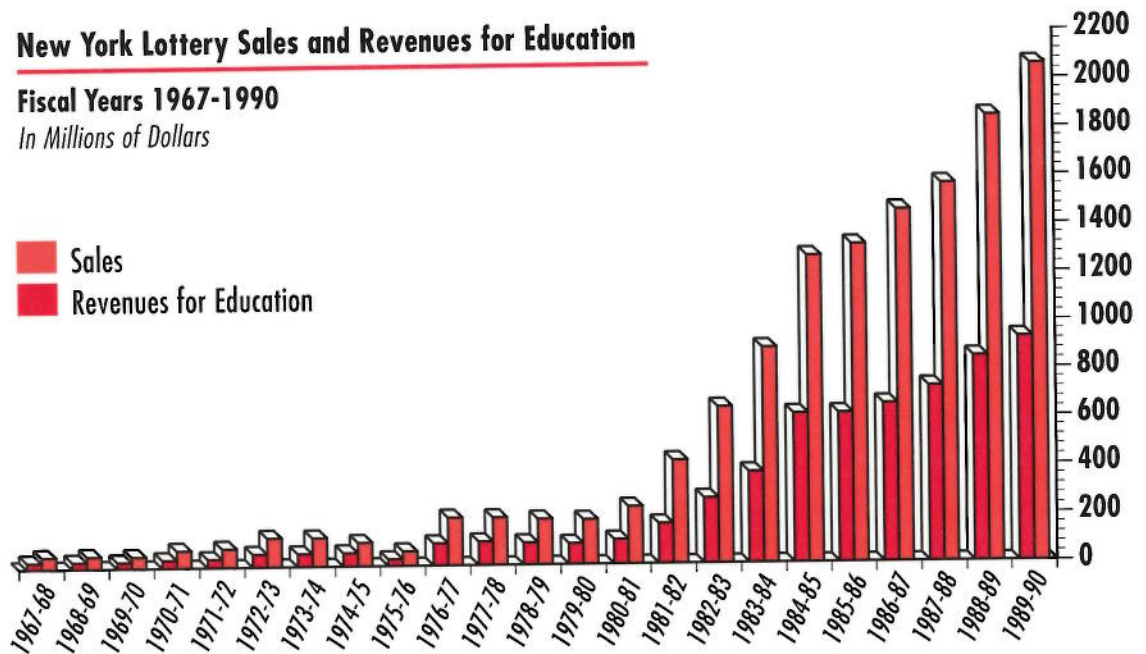
These ticket sales represent the 10th consecutive year of increased Lottery sales. In 1989-90, New York recorded the highest cumulative sales of any Lottery in the nation. Since its creation in 1967, sales have exceeded \$13 billion.

Lottery revenues in 1989-90 were \$928 million. These funds support education and comprise a significant revenue source for New York State.

New York Lottery Sales and Revenues for Education

Fiscal Years 1967-1990

In Millions of Dollars



The New York Lottery is the fourth largest State revenue source for New York.

1989-90 Financial Overview

Sales: \$2.058 Billion

Revenues for Education: \$928 Million

Operating Costs: \$237.5 Million

Prizes Awarded: \$1.039 Billion

In a review of operating costs, the New York Lottery performs favorably. While State law allows up to 15 percent of each year's sales to be spent on commissions and operating costs, the Lottery spent only 11.5 percent of sales, or \$237.5 million, in fiscal year 1989-90. The difference of 3.5 percent, or \$75.3 million, was handed over to the State for education funding, a tribute to the Lottery's solid commitment to productivity and its strong bottom-line approach.

1989-90 Operating Costs

Agent Commissions	6.0% of Sales	\$123.5 Million
Vendor Fees	2.4% of Sales	\$ 50.4 Million
Day-to-Day Costs	3.1% of Sales	\$ 63.6 Million
Total Operating Costs	11.5% of Sales	\$237.5 Million

Lottery operating costs included substantial payments for agent commissions, vendor fees and day-to-day costs, such as telecommunications fees associated with the Lottery's sales network.

For the first time in Lottery history, prizes worth more than \$1 billion were awarded in 1989-90. Lottery players won \$1.039 billion, up from \$972.1 million in prizes the previous year.

To offer players the most attractive jackpots possible, Lottery financial managers employ sophisticated and conservative investment strategies. Financial managers invest the funds for LOTTO winners' 20-year annuities in United States Government securities, the safest instruments available. Interest earned on the investments and principal available for the prizes make up payments to jackpot winners. Current market value of these investments is more than \$926 million.

In a review of sales by game, SCRATCH-OFF demonstrated the most growth of all Lottery products, while LOTTO continued to be the number-one seller.

In 1989-90, SCRATCH-OFF sales jumped 28 percent to \$202.5 million from \$158.1 million the previous year. This impressive sales growth of the SCRATCH-OFF game is a result of one of the most significant game changes in 1989-90—the increase from 50 to 55 percent in prize distribution for SCRATCH-OFF games.

SCRATCH-OFF sales showed the most growth, jumping 28 percent to \$202.5 million.

New York Lottery Games

- **LOTTO** continues to be the most popular—accounting for sales of \$929.4 million* in 1989-90.
- **NEW YORK'S NUMBERS** is second with sales of \$602.2 million.
- **WIN 4** posted \$258.4 in sales.
- **SCRATCH-OFF** recorded \$202.5 in sales.
- **PICK 10**, an updated version of **KENO** introduced in April 1990, recorded sales of \$65.7 million.

* Includes sales for CASH 40

THE NEW YORK LOTTERY IS . . .

. . . Helping to Support New York's Public Schools

Aid to Education

Since the New York Lottery began operation, its mission has been to earn revenues to benefit education in New York State. In fiscal year 1989-90, Lottery sales of \$2.058 billion earned \$928 million in revenues for New York's elementary and secondary public schools. This is a 9.4 percent increase over the previous year's revenues of \$848.2 million.

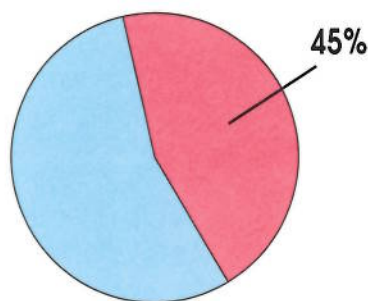
In 1989-90, the Lottery generated \$2.54 million every day to support public education in New York State. From its inception through 1989-90, the New York Lottery has contributed nearly \$6 billion in support for State education.

On average, 45 cents of every dollar that buys a Lottery ticket ends up in local school districts.

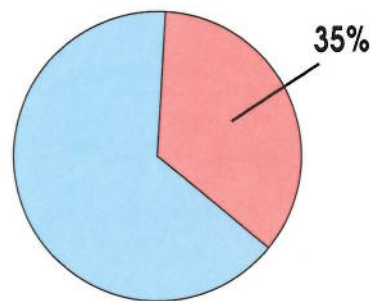
By game, 45 percent of all LOTTO, CASH 40 and PICK 10 sales and 35 percent of all NEW YORK'S NUMBERS, WIN 4 and SCRATCH-OFF sales help fund education in New York.

The Lottery earned \$2.54 million every day to support public education in New York.

**LOTTO,
CASH 40
& PICK 10 Sales**



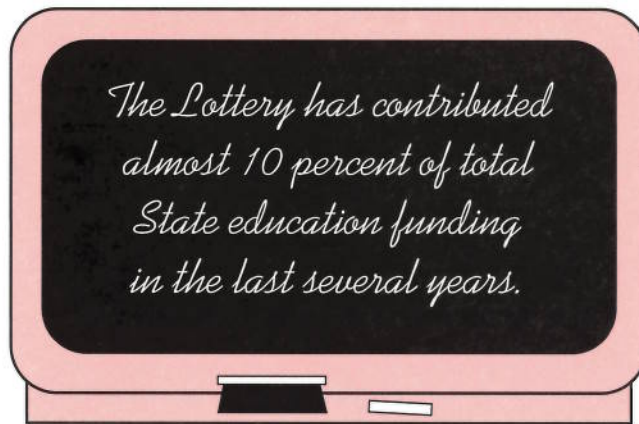
**WIN 4,
NEW YORK'S NUMBERS
& SCRATCH-OFF Sales**



The percentage of Lottery game sales that helps fund education in New York. The remainder goes to prizes and administrative costs.

Lottery aid for education is distributed to New York public schools in about 700 local school districts by the State Education Department according to a formula established by the Legislature.

This aid for education is not extra funding but is a vital part of the State's total aid-to-education package, providing about 10 percent of the total funding.



New York Lottery Aid to Education

By County in 1989-90

Albany	\$10,943,921.33	New York City*	\$337,875,055.17
Allegany	4,944,658.67	Oneida	18,527,068.78
Broome	13,643,563.14	Onondaga	31,150,254.94
Cattaraugus.....	8,820,283.47	Ontario	7,119,588.29
Cayuga.....	6,298,941.62	Orange	23,031,554.28
Chautauqua	11,748,838.21	Orleans	4,290,973.27
Chemung.....	6,978,700.72	Oswego	10,908,160.78
Chenango.....	5,776,191.90	Otsego.....	4,360,695.04
Clinton.....	7,038,132.46	Putnam.....	3,803,103.77
Columbia	3,618,546.95	Rensselaer	11,140,177.61
Cortland.....	4,244,181.69	Rockland.....	9,245,035.88
Delaware.....	3,505,984.61	Saratoga	14,494,079.61
Dutchess.....	13,192,448.10	Schenectady.....	8,129,325.32
Erie	57,815,013.37	Schoharie	2,724,393.65
Essex	1,568,032.14	Schuyler	1,380,028.14
Franklin	4,271,420.96	Seneca	2,508,704.46
Fulton	4,923,851.08	St. Lawrence.....	10,287,216.91
Genesee.....	5,166,486.65	Steuben	10,016,636.88
Greene.....	2,156,091.55	Suffolk	85,412,950.32
Hamilton.....	23,303.64	Sullivan	3,174,153.18
Herkimer.....	6,232,866.08	Tioga.....	5,218,976.72
Jefferson.....	9,070,004.04	Tompkins	4,921,191.87
Lewis.....	2,799,656.46	Ulster	8,071,866.04
Livingston	4,763,489.45	Warren	3,935,997.26
Madison.....	6,115,081.79	Washington	5,872,622.45
Monroe.....	37,289,427.49	Wayne	8,821,809.90
Montgomery	4,211,558.23	Westchester	13,286,237.03
Nassau	33,340,479.78	Wyoming.....	3,157,728.97
Niagara	15,600,607.59	Yates	1,009,350.66

* Includes boroughs of Manhattan, Brooklyn, Bronx, Queens and Staten Island

Lottery aid for education is distributed to 700 school districts across the 62 counties in New York.

THE NEW YORK LOTTERY IS . . .

. . . A Strong Partnership in the Field

The Sales Network

Sales representatives, Lottery sales agents and private companies which administer Lottery game systems help make up the important sales link that brings Lottery games to the public.

Sales Representatives

From the five regional offices, sales representatives work with Lottery sales agents in every corner of the State to communicate Lottery news, answer questions, help promote the six different Lottery games and ensure that agents have everything they need to sell Lottery tickets.

In 1989-90, plans were made to increase the Lottery's sales representative force in the next fiscal year in order to provide better service to agents. New district sales representatives will be crucial to strengthening and enlarging the agent network that will result in increased Lottery sales.

In keeping with the Lottery's commitment to service, frequent communication among sales representatives, agents and Lottery administration is of paramount importance. Plans were developed to provide improved communication to sales representatives through regularly scheduled training sessions.

Lottery sales agents are the essential link between the Lottery and the player.



Sales Agents

Lottery sales agents are the essential link between the Lottery and the player. Recognizing the importance of a strong partnership with agents, the Lottery obtains useful agent feedback at frequent advisory board meetings where Lottery executives interview agents about their Lottery sales experiences and concerns.

In 1989-90, the Lottery added 514 new on-line agents to sell the five on-line Lottery games through computer terminals, in addition to SCRATCH-OFF tickets. Business plans were developed to expand the agents network to reach the infrequent Lottery player.

At fiscal year's end, more than 10,700 Lottery agents from small "mom-and-pop" stores to newsstands, liquor stores, card shops, convenience stores and large grocery chains sold Lottery

tickets in every community of New York State. All agents sell SCRATCH-OFF, with more than 6,800 also selling the full complement of on-line Lottery products.

New York Lottery agents earn 6 percent of their ticket sales in commissions. In fiscal year 1989-90, agents earned more than \$123.5 million in commissions, up 11.5 percent over 1988-89 commissions of \$110.8 million. This is the second consecutive year that agent commissions topped the \$100 million mark.

Agents have earned in excess of \$789 million in commissions since Lottery tickets first went on sale in June 1967.

To generate incremental sales, the Lottery develops sales incentive programs that reward agents with cash and prizes. These programs have proved very successful.

Agents recognize that selling Lottery tickets is good for business. Commissions add to merchants' bottom lines, and selling Lottery tickets increases store traffic.

Contractual Services

The Lottery retains the services of several private companies to efficiently administer its on-line and SCRATCH-OFF games. These companies, hired through a competitive bidding process, include Control Data Corporation, GTECH Corporation and Scientific Games, Inc.



Agents recognize that selling Lottery tickets is good for business.

THE NEW YORK LOTTERY IS . . .

. . . The Fun of Playing and Winning the Games

Winners, Prizes and Games

Lucky winners collected a record \$1.039 billion in prizes for all Lottery games in 1989-90, up from \$972.1 million in winnings in 1988-89. From fiscal year 1967-68 through 1989-90, the New York Lottery has awarded about \$7 billion in total prizes to millions of winners, including nearly 700 men and women who have won \$1 million or more. These winners come from every corner of New York State.

Winners

Forty-three winners joined the list of New York Lottery millionaires in 1989-90. Among them was Antonio Bueti from Bedford Hills who, in January 1990, won the largest single LOTTO jackpot—\$35 million—in the history of the New York Lottery.

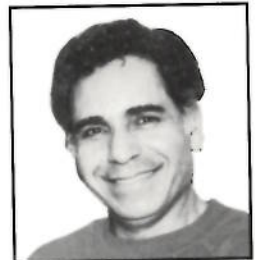


Photo: Buffalo News

Earl and Gilbertine Lautenschlager
\$10.5 million winners

Another LOTTO jackpot winner was Earl F. Lautenschlager from the Buffalo area, who upon winning \$10.5 million in October 1989 realized his long-awaited dream of retiring after 42 years of driving a bakery truck.

Salvator Celona, a butcher from Carmel, might never have claimed his \$8 million LOTTO prize. But thanks to a sign at his local pharmacy announcing the



Antonio Bueti
\$35 million winner

unclaimed jackpot in March 1990, Mr. Celona double checked his old tickets to find out he was the winner.

Among other big LOTTO jackpot winners was Carlos Gill, a New York City accountant, who prior to winning \$22 million in November 1989 had helped an elderly woman locate her car in a large parking lot. Upon winning he said, "Maybe my good deed has been rewarded."



Carlos Gill
\$22 million winner



Salvator Celona
\$8 million winner

Prizes

Lottery prize payment offices validate and process more than \$4 million in winnings each week. To improve customer service, cash prizes up to \$500,000 began to be paid directly from regional offices in 1989-90. Before this change, regional offices could pay prizes up to only \$5,000 and larger prizes were issued from the main prize payment office in Albany. Players can collect Lottery winnings up to and including \$600 at agent locations around the State.

The Lottery also began withholding State and local income taxes, in addition to 20 percent for federal income taxes, on all prizes greater than \$5,000.

All game prizes, except LOTTO jackpots that are paid out over time, are issued as soon as the winning ticket is verified.

Lottery winners collected a record \$1.039 billion in 1989-90.

Games

To keep the games exciting, the Lottery conducts sophisticated market research on players' opinions and buying habits and incorporates this information into each game's design.



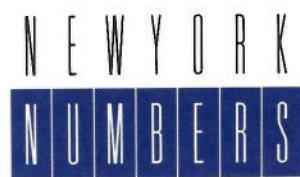
The joy of Lottery players everywhere is winning instantly. SCRATCH-OFF games allow players to rub off winning graphic combinations to collect up to \$100 in winnings where tickets were bought. SCRATCH-OFF games feature a variety of themes and prize structures which appeal to all players. In fiscal year 1989-90, the Lottery began issuing a new SCRATCH-OFF game every seven weeks and offered players four games at one time. Eight new games were introduced in 1989-90.

New York was the first Lottery to successfully introduce LOTTO. The most popular of New York Lottery games, LOTTO offers drawings twice a week on Wednesday and Saturday. To win, players must correctly match 6 numbers randomly chosen from a field of 54. Frequent New York LOTTO players can play by mail, individually or in groups, with subscriptions of up to one year that automatically enter subscribers' numbers in each drawing.



The newest Lottery game, PICK 10, was introduced in April 1990, replacing KENO. Pick 10 is a daily game in which players choose 10 numbers from a field of 80. Each night, the Lottery draws 20 numbers. Prizes are awarded for matching 0, 6, 7, 8, 9 or 10 of the numbers drawn. Players matching all 10 numbers can win a top prize of \$500,000. If there are more than 10 jackpot winners for one drawing, the total jackpot prize pool of \$5 million will be divided equally among all jackpot winners.

Similar to LOTTO, but with lower odds and higher cash prizes for second- and third-place winners, CASH 40 pays its lucky winners in one lump sum. The game's players select 6 numbers from a field of 40 to win jackpots starting at \$100,000. Drawings are held on Monday nights.



The fun of selecting different odds attracts loyal players to NEW YORK'S NUMBERS and WIN 4. Every night of the week, a live drawing randomly selects the three-digit (NEW YORK'S NUMBERS) and four-digit (WIN 4) numbers that create thousands of weekly winners for these exciting games.



For players in a hurry, all on-line games offer the convenience of QUICK PICK, a computerized option that randomly selects numbers in a few seconds.



Forty-three winners joined the list of Lottery millionaires in 1989-90.

THE NEW YORK LOTTERY IS . . .

. . . Part of Our Culture and Communities

Promotions and Advertising

Promotional programs are an integral part of how the Lottery reaches out to the public, not just to build recognition but also to support worthy causes in cities and towns throughout the State. Through promotions, the Lottery gets involved to lend a hand for the betterment of local communities.

Promotions

The New York Lottery participates in scores of local events and promotions, from contributing to the fun at the New York State Fair to supporting nonprofit causes, such as supplying SCRATCH-OFF tickets to four Public Television stations around the State as incentives for viewer donations.

The New York Lottery participates in scores of local events and promotions.

Every week, Lottery representatives are out in the community, supporting and participating in local events, festivals and charitable causes, such as:

- Supporting Boys' Clubs statewide by giving thousands of major and minor league baseball tickets to youngsters who can't afford to attend games.
 - Staging shoot-outs at Knicks basketball games for the chance to win SCRATCH-OFF tickets.
 - Conducting prize give-aways at festivals, including the Black and Hispanic Expos in New York City.
 - Setting up booths at community events like the Queens Day Celebration, the Saratoga and Erie County Fairs, Flag Day in Albany, and many others.
 - Sponsoring a Long Island bowling tournament where teams of reporters compete to benefit charity.
-

Advertising

In its advertising, the Lottery has taken a responsible approach by recognizing incidents of compulsive behavior and voluntarily attaching a copy line to advertising, promotional literature and game brochures that cautions players to:

"Follow Your Dreams . . . Within Your Means"

The advertising for LOTTO has reached out to the Lottery-playing public by identifying the single reason why most people play the Lottery—to dream about winning.

With award-winning results, the Lottery developed the "Dollar and a Dream" advertising campaign that highlights people's dreams about winning—repaying their parents, donating to charity, sending their children to college, vacationing for the rest of their lives or simply retiring from work. During fiscal year 1989-90, more than 53,000 New Yorkers shared their dreams with the Lottery in a statewide public contest to select advertising-campaign participants for future ads.

**"I'd experience
cultures other
than the ones
in my
yogurt."**



Twice a week, someone could win millions of dollars.
Think what you would do if you won.

NEW YORK
LOTTO

All you need is a dollar and a dream.



**"I'd pay off my mortgage,
my dad's mortgage,
my sister's mortgage . . ."**

NEW YORK
LOTTO

All you need is a dollar and a dream.

The LOTTO advertising campaign highlights people's dreams about winning.

THE NEW YORK LOTTERY IS . . .

. . . Looking to the Future

As the State's communities look into the future, a difficult financial picture emerges. In its role of serving the State, the Lottery is proud of its record in fulfilling its mandate to support education. And the Lottery's plans implemented in 1989-90 show positive signs for the future.

Promising PICK 10 sales and increasing SCRATCH-OFF sales with new game introductions each seven weeks combine with the addition of a larger sales force and a renewed emphasis on serving players to create the right mix that will continue to generate strong revenues for New York State.

In 1991, the New York Lottery will look back to celebrate its 25th anniversary of providing New Yorkers the fun and excitement of playing Lottery games. The Lottery also takes this opportunity to look ahead to fulfilling the promise of generating ever more revenues to benefit education in New York State.

Report of Independent Accountants

New York State Lottery

We have audited the statements of assets and liabilities of the New York State Lottery as of March 31, 1990 and 1989, and the related statements of revenue and revenue allocations, and changes in assets and liabilities for the years then ended. These financial statements are the responsibility of the management of the New York State Lottery. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and liabilities of the New York State Lottery as of March 31, 1990 and 1989, and its revenue and revenue allocations and its changes in assets and liabilities for the years then ended in conformity with generally accepted accounting principles.

Coopers & Lybrand

Albany, New York
June 4, 1990

New York State Lottery Statements of Assets and Liabilities

March 31, 1990 and 1989
(In Thousands)

	1990	1989
ASSETS		
Cash and cash equivalents	\$ 105,377	\$ 112,231
Accounts receivable	28,495	16,212
Investments, at amortized cost	882,682	752,465
Total assets	\$1,016,554	\$ 880,908
LIABILITIES		
Prizes:		
Unclaimed and future prizes	\$ 123,333	\$ 101,817
Long-term prize obligations	890,048	762,290
	1,013,381	864,107
Overtransfer to education	(9,430)	(8,752)
Administration	8,558	17,883
Other payables	4,045	7,670
Commitments and contingencies (Note 9)		
Total liabilities	\$1,016,554	\$ 880,908

New York State Lottery Statements of Revenue and Revenue Allocations

For the Years Ended March 31, 1990 and 1989
(In Thousands)

	1990	1989
Revenue:		
Ticket sales	\$2,058,139	\$1,847,097
Less:		
Agent commissions	(123,488)	(110,837)
Contractor fees	(50,393)	(44,216)
Net revenue from ticket sales	1,884,258	1,692,044
Interest income	84,305	76,782
Other income	1,721	1,157
Total revenue	1,970,284	1,769,983
Revenue allocations:		
Prizes	979,538	875,425
Administration	63,637	64,407
Revenue allocations to prizes and administration	1,043,175	939,832
Revenue allocation to education	\$ 927,109	\$ 830,151

The accompanying notes are an integral part of the financial statements.

New York State Lottery
Statements of Changes in Assets and Liabilities

For the Years Ended March 31, 1990 and 1989
(In Thousands)

	1990	1989
SOURCES OF CASH:		
Ticket sales	\$2,058,139	\$1,847,097
Interest and other income	86,026	77,939
	2,144,165	1,925,036
 Item not providing cash:		
Amortization of discount on investments	(70,456)	(64,444)
	2,073,709	1,860,592
Proceeds from sale of investments	4,598	24,756
Proceeds from investment maturities	90,894	72,567
Decrease in accounts receivable		1,949
Increase in other payables		5,242
	2,169,201	1,965,106
 USES OF CASH:		
Payments of prizes	830,921	721,292
Payments of agent commissions	123,488	110,837
Payments of contractors fees	50,393	44,216
Payments of lottery administration expenses	72,249	67,243
Purchases of investments	155,110	157,548
Increase in accounts receivable	12,283	
Decrease in other payables	3,625	
	1,248,069	1,101,136
Transfer to education	927,986	848,208
	2,176,055	1,949,344
Net (decrease) increase in cash and cash equivalents	(6,854)	15,762
Cash and cash equivalents, beginning of year	112,231	96,469
Cash and cash equivalents, end of year	\$ 105,377	\$ 112,231

The accompanying notes are an integral part of the financial statements.

New York State Lottery

Notes to Financial Statements

1 Summary of Significant Accounting Policies

The New York State Lottery (the "Lottery") was established by Chapter 92 of the the Laws of 1976 enacted by the New York State Legislature on March 31, 1976. The purpose of the Lottery is to raise revenue for education in the State of New York ("State") through the administration of lottery games.

The Lottery is included within the financial reporting entity of the State of New York. Within the General Purpose Financial Statements of the State of New York, the Lottery is accounted for within two funds. The revenues and expenditures for administration, aid to education and prizes are reported in a Special Revenue Fund. Monies for prizes are transferred to a Lottery Agency Fund for payment of prizes as claims are filed.

The accompanying financial statements include the accounts of both funds and are presented in a manner similar to that of an enterprise fund. The accounting policies of the Lottery conform in all material respects to generally accepted accounting principles whereby revenue is recognized when earned and expenses are recognized when incurred.

Revenue Recognition

Revenue from completed Instant games is reported based on the dollar value of lottery ticket sales. Ticket sales are determined based on the total number of tickets available for sale for each game less unsold tickets at the conclusion of each game.

Revenue from Instant games in progress is reported based on the dollar value of the total number of tickets available for sale for each game less ticket inventories on hand at the Instant game ticket contractor.

Revenue from Lotto, Cash 40, Daily Numbers, Keno and Win-Four games is reported at the dollar value of all tickets sold. Revenue from ticket sales includes subscription sales for future drawings of approximately \$7,567,000 and \$7,571,000 for fiscal years 1990 and 1989, respectively.

Effective April 1, 1990, the Lottery replaced Keno with Pick-10, a game with similar features.

Commissions and Fees

Agents receive a commission of six percent based on the total tickets sold. Contractors receive a fee equal to a contractual percentage of the revenues generated through the respective network maintained by each contractor (see Note 9).

Revenue Allocation

The allocation of ticket sales is made in accordance with the provisions of the New York

State Lottery for Education Law which requires:

- allocations of ticket sales revenue to New York State for educational purposes to be at least 35 percent for the Daily Numbers, Win-Four and Instant games and 45 percent for Lotto, Cash 40 and Keno.
- allocations of ticket sales revenue for the payment of lottery prizes not to exceed 50 percent for the Daily Numbers, Win-Four and Instant games and 40 percent for Lotto, Cash 40 and Keno.
- allocations of ticket sales revenue from all games for the payment of lottery administration expenses (including agent commissions and contractors' fees) not to exceed 15 percent. Any excess of the maximum allocation over administration expenses is allocated to education. Such allocations amounted to approximately \$75,297,000 and \$61,428,000 for fiscal years 1990 and 1989, respectively. Administration expenses incurred by the Lottery represent the cost of developing and printing lottery tickets, advertising, salary and other operating costs and include an accrual for expenses to be paid after the fiscal year-end.

Investments

Investments, consisting of U.S. Government-backed obligations, are carried at amortized cost. The periodic amortization of discount is recorded as interest income in these financial statements.

Unclaimed and Future Prizes

Prizes unclaimed for one year after the drawing date are forfeited by the ticket holders and are allocated to education. Such allocations amounted to approximately \$31,896,000 and \$23,778,000 for fiscal years 1990 and 1989, respectively.

New legislation passed during fiscal year 1990 requires the Lottery to transfer unclaimed prizes to education six months after a drawing in anticipation of a possible forfeiture. Such transfer is in addition to the allocation to education and amounted to \$14,852,000 during the fiscal year ended March 31, 1990. Funds for prizes claimed and paid between six and twelve months after a drawing are reimbursed from the subsequent transfer to the education account. All prizes can still be claimed for twelve months after a drawing.

Future prizes represent the difference between the maximum allocation to prizes and the amount allocated to the winning pools of Lottery games. Such amounts are disbursed, as determined by management, for the sole benefit of Lottery game winners.

Long-term Prize Obligations

The liability for long-term prize winners is for those prizes which are payable in annual installments. Such prize payments are funded by

New York State Lottery Notes to Financial Statements (Continued)

the Lottery's investment in U.S. Government-backed securities. The periodic amortization of discount is included in revenue allocated to prizes in these financial statements. Any excess of security maturities over prize payments is made available for prizes.

Cash and Cash Equivalents

Cash and cash equivalents include amounts held with banks and amounts held under the joint custody of the Lottery and the Office of the State Comptroller of the State of New York through their Short-term Investment Pool.

Reclassifications

Certain 1989 amounts have been reclassified to conform to the 1990 presentation.

2 Cash and Cash Equivalents

Lottery deposits and investments are made in accordance with New York State statutes.

Lottery sales receipts are allocated and deposited in investment fund accounts for prizes, education and administration under the joint custody of the Lottery and the Office of the State Comptroller of the State of New York. The accounts for prizes and administration earn interest through participation in a short-term investment pool administered by the State Comptroller. The carrying and market value of the accounts included in cash and cash equivalents were \$107,145,000 and \$113,217,000 at March 31, 1990 and 1989, respectively. Interest income earned in each investment account is used for the specific purpose and benefit of that account.

The Lottery also maintains sole custody accounts which are used for daily cash management purposes. Book overdrafts included in cash and cash equivalents related to sole custody accounts were \$1,768,000 and \$986,000 for fiscal years 1990 and 1989, respectively. The Lottery's deposits in sole custody accounts at March 31, 1990 were entirely covered by either federal depository insurance or by collateral pledged by the custodial bank to the State of New York on behalf of the Lottery.

3 Investments

The Lottery is authorized to invest in U.S. Government-backed obligations (zero coupon bonds and stripped Government securities), which will provide for the payment of the long-term prize obligations (see Note 4). During fiscal years 1990 and 1989, approximately \$70,456,000 and \$64,444,000, respectively, of amortized discount

was included in interest income.

These investments consisted of the following at March 31 (in thousands):

	1990	1989
Maturity value	\$1,779,896	\$1,553,186
Less unamortized discount	<u>897,214</u>	<u>800,721</u>
Carrying value	<u>\$ 882,682</u>	<u>\$ 752,465</u>
Market value	<u>\$ 926,943</u>	<u>\$ 774,132</u>

Maturities of the investments in each of the five fiscal years following March 31, 1990, and the total thereafter, are as follows (in thousands):

1991	\$ 104,745
1992	105,402
1993	104,433
1994	103,950
1995	104,698
1996 and thereafter	<u>1,256,668</u>
	<u>\$1,779,896</u>

The Lottery's investments are held in custodial accounts in bearer form or in the name of the custodian or its nominee on behalf of the Lottery.

Disclosures relating to risk and type of investments as presented above are indicative of activity and positions held during the year.

4 Long-term Prize Obligations

The long-term prize obligations consisted of the following at March 31 (in thousands):

	1990	1989
Total obligation	\$1,783,194	\$1,558,936
Less unamortized discount	<u>893,146</u>	<u>796,646</u>
Net obligation	<u>\$ 890,048</u>	<u>\$ 762,290</u>

The amortized discount on the long-term obligation is based on interest rates which range from 6.28 percent to 13.55 percent and reflect the interest rates earned by the investments held to fund the related liabilities. During fiscal years 1990 and 1989, approximately \$70,198,000 and \$64,197,000, respectively, of amortized discount was included in revenue allocated to prizes.

The aggregate amount of long-term liabilities due in each of the five fiscal years following March 31, 1990, and the total thereafter, is as follows (in thousands):

1991	\$ 104,361
1992	104,361
1993	104,361
1994	104,361
1995	104,361
1996 and thereafter	<u>1,261,389</u>
	<u>\$1,783,194</u>

New York State Lottery Notes to Financial Statements (Continued)

5 Operating Segment Information

Operating segment information for fiscal 1990 and 1989 by type of lottery game is as follows (in thousands):

	1990				
	Lotto and Cash 40	Keno	Daily Numbers and Win-Four	Instant Games	Total
Ticket sales	\$929,493	\$ 65,591	\$860,563	\$202,492	\$2,058,139
Prizes	(423,553)	(24,308)	(429,308)	(102,369)	(979,538)
Commissions and fees	(71,593)	(5,101)	(66,903)	(30,284)	(173,881)
Interest and other income	77,488	496	6,510	1,532	86,026
Administrative costs	(31,916)	(2,229)	(29,266)	(226)	(63,637)
Allocation to education	<u>\$479,919</u>	<u>\$ 34,449</u>	<u>\$341,596</u>	<u>\$ 71,145</u>	<u>\$ 927,109</u>
	1989				
	Lotto and Cash 40	Keno	Daily Numbers and Win-Four	Instant Games	Total
Ticket sales	\$841,668	\$ 65,652	\$781,651	\$158,126	\$1,847,097
Prizes	(389,009)	(24,791)	(389,520)	(72,105)	(875,425)
Commissions and fees	(65,115)	(5,164)	(61,326)	(23,448)	(155,053)
Interest and other income	71,383	481	5,047	1,028	77,939
Administrative costs	(32,443)	(2,455)	(29,118)	(391)	(64,407)
Allocation to education	<u>\$426,484</u>	<u>\$ 33,723</u>	<u>\$306,734</u>	<u>\$ 63,210</u>	<u>\$ 830,151</u>

Administrative costs are allocated to each game based on net revenue from ticket sales.

6 Education

Revenue allocation to education during the fiscal years ended March 31, 1990 and 1989 is as follows:

	1990	1989
Revenue transferred for education	\$927,986	\$848,208
Prior year overtransfer	8,752	(9,305)
Other adjustments	(199)	
Amount transferred from current year revenue	936,539	838,903
Current year overtransfer	(9,430)	(8,752)
Revenue allocation to education	<u>\$927,109</u>	<u>\$830,151</u>

7 Defined Benefit Pension Plan

Substantially all Lottery employees participate in the New York State Employees' Retirement System ("the System"), a cost-sharing multiple-employer public employee retirement system. The payroll for employees covered by the system for the year ended March 31, 1990 was approximately \$6,184,500; the Lottery's total payroll was \$6,291,500.

The System provides retirement benefits as well as death and disability benefits. All benefits vest after 10 years of credited service. Retirement benefits that employees are entitled to are established by New York State law and are dependent upon the point in time at which the employee last joined the System. These retirement plans have both contributory and non-contributory requirements depending upon the point at which an employee last joined the System. Most members of the System who joined before

July 27, 1976 are enrolled in a noncontributory plan and may retire at age 55. Employees who last joined the System on or after July 27, 1976 are enrolled in a contributory plan which requires a 3% contribution of their salary and may retire at age 62. A public employee who joined the System during the period of July 27, 1976 to August 31, 1983 and leaves covered employment before 10 years of credited service may obtain a refund including interest of the accumulated employee contributions. Employees who joined the System subsequent to August 31, 1983 may not withdraw accumulated employee contributions with interest until they become age 62. Members, benefits, and employer and employee obligations to contribute are described in the New York State Retirement and Social Security Law. The number of members and benefit recipients of the System as of March 31, 1989 (1990 plan data is not available) totaled approximately 807,000, including 239,000 retirees and beneficiaries currently receiving benefits

New York State Lottery Notes to Financial Statements (Continued)

and no longer working members entitled to benefits but not yet receiving them; 74,000 nonvested inactive members, and 494,000 current working members.

The contribution requirement for the year ended March 31, 1990 was \$500,276 which consisted of \$394,187 from the Lottery and \$106,089 from employees; these contributions represented 6.4% and 1.7% of covered payroll, respectively.

The contribution requirement for the year ended March 31, 1989 was \$460,304, which consisted of \$361,319 from the Lottery and \$98,985 from employees; these contributions represented 6.2% and 1.7% of covered payroll, respectively.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems and employers. The System does not make separate measurements of assets and pension benefit obligation for individual employers. The pension benefit obligation at March 31, 1989 for the System as a whole, determined through an actuarial valuation performed as of that date, was \$27,630,000,000. The System's net assets available for benefits on that date (valued at market) were \$36,390,000,000 resulting in assets in excess of pension benefit obligation of \$8,760,000,000. The Lottery's 1989 contribution represented .04 percent of total contributions required of all participating entities.

Ten-year historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's March 31, 1989 annual financial report.

8 Deferred Compensation

New York State offers its employees, including lottery employees, a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the State (without being restricted to the provisions of benefits under the plan), subject only to the claims of the State's general creditors. Participants' rights under the plan are equal to those of general creditors of the State in an amount equal to the fair market value of the deferred account for each participant. The assets and liabilities related to this plan are recorded in the State's financial statements.

9 Commitments and Contingencies

Contractual arrangements:

The New York State Lottery maintains two parallel on-line gaming networks, each comprised of several thousand agent terminals. The Lottery contracts the operations of such networks with two contractors, GTECH Corporation (GTECH) and Control Data Corporation (CDC). The GTECH contract is for a term of approximately five years expiring December 31, 1992, and the CDC contract is for a term of six years expiring September 1, 1993. The New York State Lottery also contracts the operations of the Instant games with Scientific Games, Inc. This contract is for a term of approximately six years expiring January 13, 1992.

Insurance annuities:

Prior to 1983, the Lottery had entered into agreements with insurance companies under which the Lottery purchased annuities under contracts that provide payments corresponding to the Lottery's obligation to the prize winners. Because it is the intent of the Lottery that the insurance companies make future installment payments directly to each prize winner, neither the present value of the annuities nor the present value of the related future payments are reflected in the accompanying financial statements. The Lottery may be liable for such future payments if the insurance companies were to default on their payments. Unpaid amounts under these arrangements approximated \$134,000,000 at March 31, 1990.

Litigation:

The Lottery has been named as a defendant in several lawsuits. While the ultimate outcome of these lawsuits cannot be predicted at this time, it is the opinion of management and in-house counsel that the disposition of any litigation in which the Lottery is involved will not have a material adverse effect on the financial position of the Lottery.

Federal Communications Commission (FCC) ruling:

On February 21, 1990, the FCC ruled, in response to a request from New York Telephone Company, that the New York Telephone Company should be permitted to retroactively charge intrastate rates rather than interstate rates for data telecommunications lines supplied to American Telephone and Telegraph Company (AT&T) for use by the Lottery. The Lottery estimates the amount of retroactive adjustment to approximate \$10,108,000.

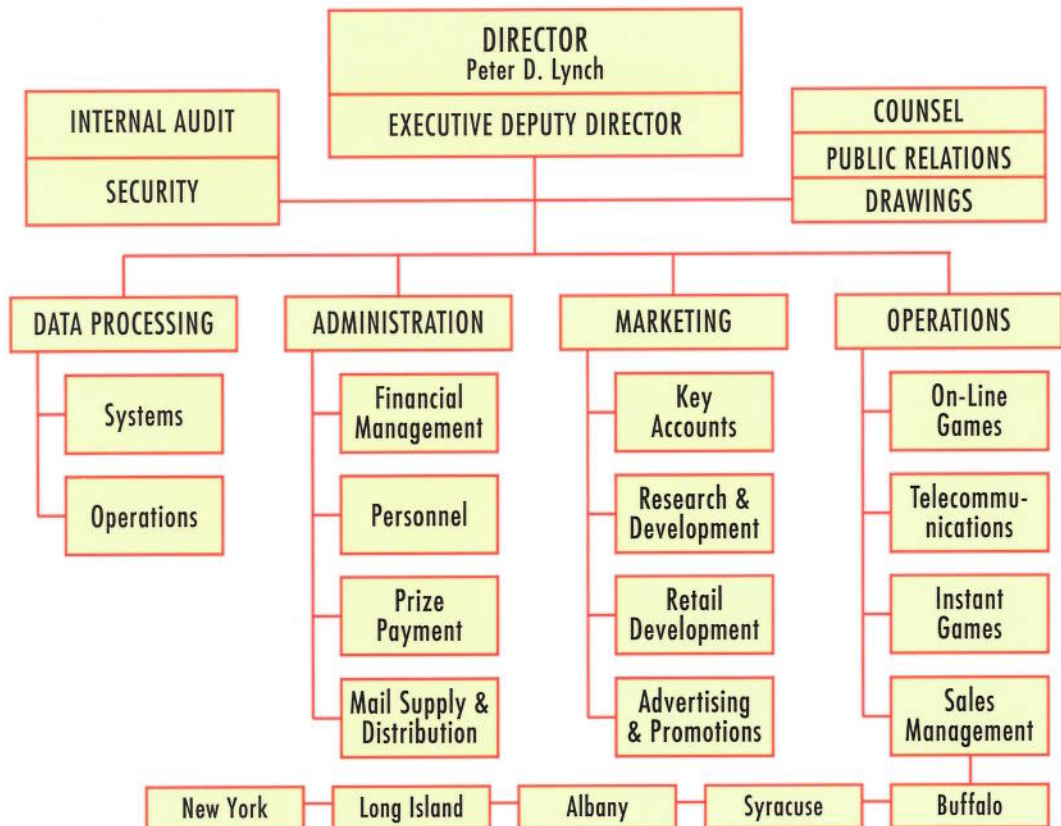
The Lottery and AT&T have petitioned the FCC to reconsider its ruling, and those petitions are currently pending.

The ultimate outcome of this ruling cannot be predicted at this time. Management and in-house counsel believe that the final ruling will have no material impact on the financial position of the Lottery. Accordingly, no adjustment has been made to the accompanying financial statements.

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