

NEW YORK STATE LOTTERY

ANNUAL REPORT
FISCAL YEAR 1992-93



SUPPORTING EDUCATION SINCE 1967

Executive Staff

Peter D. Lynch

Director

Russell V. Gladieux

Executive Deputy Director

Daniel J. Codden

Director of Operations

Anne McCartin Doyle

Director of Public Relations

Cornelia H. Laverty

Director of Marketing

John R. McNulty

Director of Internal Audit

Vincent J. Monitto

Director of Electronic Data Processing

William J. Murray

Counsel

Edward T. Rowan

Director of Security

Henry L. Scott

Director of Administration

Regional Staff

Charles Hamilton

Regional Director, New York City

Thomas Carpenter

Regional Director, Western New York

William Lonczak

Regional Director, Central New York

Charles O'Donnell

Regional Director, Southeast New York

Diane Scala

Regional Director, Northeast New York

New York State Lottery

Main Office

One Broadway Center

P. O. Box 7500

Schenectady, New York 12301-7500

518-388-3300

New York City

Regional Office

90 Maiden Lane, 4th Floor

New York, NY 10038

212-383-1300

Southeastern New York

Regional Office

463 Willis Avenue

Williston Park, New York 11596

516-747-7700

Northeastern New York

Regional Office

855 Central Avenue

West Mall Office Plaza

Albany, New York 12206

518-457-0440

Central New York

Regional Office

620 Erie Boulevard West

Suite 112

Syracuse, NY 13204-2442

(315) 448-4300

Western New York

Regional Office

Ellicott Square Building

295 Main Street, Suite 800

Buffalo, New York 14203

716-847-3469

Contents

Letter From The Director	1
Financial Performance	2
Lottery Revenue	4
Lottery Winners	6
Lottery Sales Agents	8
Lottery In The Community	9
Lottery Games	10
Lottery On The Air	12
Financial Statements	13

LETTER FROM THE DIRECTOR



To all who are part of the New York State Lottery, our players, employees, contractors and most importantly, the thousands of merchants who are our licensed Lottery agents, 1992-93 has been our finest year.

At the close of the 1991-92 fiscal year, we took note of the challenges posed to the Lottery by a then weak economy, reported on the hopeful measures taken to face these challenges, and reaffirmed our commitment to earning even greater revenues for New York State's educational systems.

In 1992-93, those challenges were more than met and the commitment fulfilled, exceeding our greatest expectations. The New York Lottery, for the first time in its history, achieved profits of more than \$1 billion on record sales of \$2.36 billion. In addition, nearly \$1.2 billion was awarded in prizes on 105 million winning tickets.

Those profits were deposited, as required, in the State's Lottery for Education Fund. The State Legislature appropriated \$961

million from this fund as part of the 1992-93 State Aid to local school districts. The remaining profit was carried over in the fund and will be part of the more than \$1 billion expected of the Lottery for school aid in the 1993-94 fiscal year.

Lottery sales grew by 14.4 percent or almost \$300 million from the previous year, while profits grew by 15.5 percent or \$135 million. All games showed sales increases, but TAKE FIVE, introduced as one answer to the challenges of 1991-92, proved most worthy by accounting for the largest share of increased earnings. To have achieved this most successful year on the heels of a period of slowed sales growth is a credit to the partnership between government and private commerce which is the New York Lottery.

More than \$141 million was paid in commissions to the more than 12,000 agents who constitute the backbone of the Lottery's sales network. In addition, contractors who own and operate the gaming systems and print and distribute tickets earned \$56.9 million, telecommunications costs totaled \$23 million and advertising \$21.7 million. All of which created jobs for New Yorkers and tax revenues on earnings for New York.

Total Lottery staff, dedicated to marketing, security, audit, prize validation, drawings and computer operations, cost \$10.7 million or 0.5 percent of sales. Although State law allows up to 15 percent of annual sales to be spent on administrative costs, in 1992-93 as in the past 12 years, the Lottery spent less than the law provides. The difference of nearly 4 percent, or \$92.3 million, was delivered to the State for education funding, constituting a portion of the record \$1 billion earned this year.

The New York Lottery constitutes an excellent example of public and private cooperation. Government's role of providing public assurance that games are honest and fair, as well as providing strict oversight for all aspects of game development, marketing and prize payments, complements the network of established retail businesses and the private sector's recognized expertise in gaming software, advertising, telecommunications, and point-of-sale retail computing. The proposition works well for all concerned, especially New York's taxpayers.

A handwritten signature in black ink, which appears to read "Peter D. Lynch". The signature is fluid and cursive.

Peter D. Lynch
Director

In fiscal year 1992-93, the New York State Lottery generated \$2.36 billion in ticket sales and earned over \$1 billion in revenue for the State. These figures represent an increase of 14.4 percent in sales and 15.5 percent in revenue over the previous fiscal year.

This was the first time in the history of the New York Lottery that profits exceeded \$1 billion. With this substantial revenue contribution, the Lottery remains the fourth largest revenue source in New York State. Lottery revenue is specifically earmarked for education and is distributed to local school districts statewide.

For calendar year 1992, the New York Lottery reclaimed the distinction of being North America's leading Lottery in net profits.

One of the primary reasons for the Lottery's success in 1992-93 is TAKE FIVE, the latest game introduced by the Lottery. TAKE FIVE was introduced in January 1992 and quickly became a favorite with players. In fact, TAKE FIVE proved so popular it was expanded to two nights a week, Tuesday and Friday, in June 1992, just five months after its introduction, in response to players' enthusiasm for the game.

Since TAKE FIVE began, there have been a total of 3,480,543 cash winners. During this fiscal

year, there were 3,078,325 cash prize winners. TAKE FIVE offers a bonus Free Play ticket for matching two of the five winning numbers. Free Plays are "Quick Pick" tickets good for a subsequent TAKE FIVE drawing that must be collected within 45 days from a Lottery sales agent. To date, players have won a total of almost 36 million Free Play tickets and 40 of those Free Plays won first prize for the holders in subsequent drawings.

The Distribution of Lottery Money: Aid to Education, Prizes and Operations

Lottery ticket sales money is divided among three different purposes: Revenue for Education Aid, Prizes, and Operations. While the breakdown for each game differs somewhat by law, the average breakdown across all games is:

Revenue	42.1 cents
Prizes	46.7 cents
Store Owners	
Commissions	6.0 cents
Computers,	
Telecommunication,	
Advertising and all	
other operations	
costs, including	
vendor fees.	5.2 cents

Education Aid

The more than \$1.0 billion in education aid generated by the Lottery in 1992-93 represents about 42 percent of all Lottery sales. On average, the Lottery earned about \$2.7 million each day for the State's local aid to education fund.

Prizes

Nearly \$1.2 billion in prizes was awarded to Lottery players in fiscal year 1992-93. There were 105 million winning tickets in all — the equivalent of more than seven winning tickets for every New Yorker over 18 years of age.

Operating Costs

The New York Lottery continues its long-standing commitment to efficiency. While State law allows up to 15 percent of yearly sales to be spent for operations, the Lottery spent only 11.2 percent, or \$263.7 million, on all operating expenses, including sales agent commissions of 6 percent, in fiscal year 1992-93.

The difference of nearly 4 percent, or \$92.3 million, was delivered to the State for education funding.

Lottery operating costs include sales agent commissions, contractor fees, such as those needed for operating and maintaining the on-line computer game system and the printing and distribution of INSTANT CASH game tickets, and internal administration.

Sales agent commissions, totaling 6 percent of sales, were \$141.6 million. Contractor fees accounted for 2.4 percent of sales, or \$56.9 million.⁽¹⁾

1. Includes contractor's share of Instant Cash games advertising supplement at \$9.29 million.

Lottery internal administrative costs were 2.8 percent of sales, or \$65.1 million. These administrative expenses included \$23.6 million for telecommunications services supporting the on-line gaming network, \$21.7⁽²⁾ million for advertising, and \$10.7 million for salaries and benefits. The remaining administrative costs include miscellaneous expenses for such things as supplies, equipment, and other needs associated with the day-to-day operations of the Lottery.

Lottery Investments

In order to offer the largest LOTTO jackpots possible, the Lottery strategically manages its investment portfolio — worth, as of March 31, 1993, more than \$1.4 billion.

The size of each LOTTO jackpot is determined by sales projections for the drawing and up-to-date investment interest rates. The jackpot amount includes the principal — the portion of sales receipts allocated for first prize for the drawing — and the interest earned on the principal over the 20-year investment period. LOTTO jackpots are paid to winners in 21 installments over a 20-year period. Through these payments, LOTTO jackpot winners receive both the principal and interest on their winnings.

SALES PERFORMANCE BY GAME

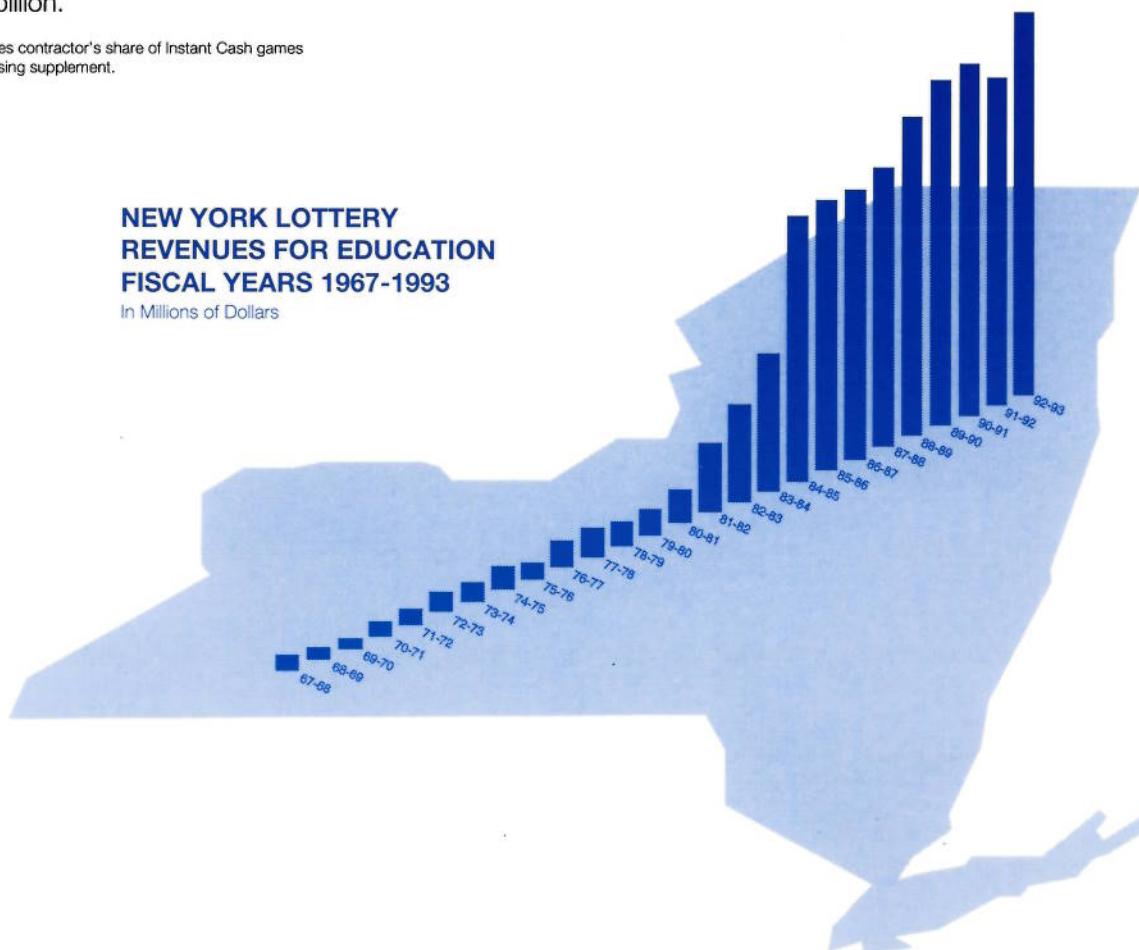
Sales for each New York Lottery game during the 1992-93 fiscal year:

- ◆ LOTTO sales were \$696.3 million
- ◆ TAKE FIVE sales were \$274.6 million
- ◆ INSTANT CASH sales were \$290.3 million
- ◆ PICK 10 sales were \$91.2 million
- ◆ WIN 4 sales were \$355.4 million
- ◆ NEW YORK'S NUMBERS sales were \$652.3 million

2. Excludes contractor's share of Instant Cash games advertising supplement.

NEW YORK LOTTERY REVENUES FOR EDUCATION FISCAL YEARS 1967-1993

In Millions of Dollars



The Lottery's financial managers invest the funds for LOTTO winners' jackpot prizes in Federal government securities, the safest instruments available. Lottery revenue is used by New York State to help fund education aid for elementary and secondary schools. The New York Lottery's revenues are distributed, along with other education aid funds, to school districts across the State.

In fiscal year 1992-93, the Lottery generated \$1 billion for education. This Lottery aid comprised about 12 percent of the State's total aid to local schools.

From the Lottery's beginning in 1967, more than \$8 billion has been generated for education in New York State.

On average, about 42 cents of every dollar that buys a Lottery ticket goes to support public education in New York State.

The Distribution and Use of Lottery Aid for Education

Lottery revenues are distributed to 702 school districts in the 62 counties of New York State. The amount of aid sent to each district is based on a statutory formula developed by the Legislature. This formula is applied by the State Education Department to make allocations to local school districts. The formula is based on a myriad of factors, including local school district pupil population, pupil grade levels, special student needs, and full value of property within the districts.

As part of the State's guidelines for distribution of Lottery aid, \$20 is allocated for each resident enrolled pupil for the purchase and loan of textbooks. A \$10 payment for each blind and deaf student in a State-supported school is also included in the disbursement.

Once these allocations are made, the remainder of Lottery aid is distributed to local school districts. Each district has the

authority to determine how these funds are spent. According to State education officials, examples of the use of New York Lottery aid can include computer hardware, teacher's salaries, maintenance, transportation, programs for attendance improvement and dropout prevention and a variety of other school expenses.

Lottery Aid: An Important Part of the Total

Lottery revenue is part of the State's total aid package to local schools and is *not* extra funding. Lottery aid is *not* an added bonus to what the State allocates for education, but is an integral part of the State's total funding for schools.

Without the Lottery, State aid to the 702 school districts might well be reduced, taxes increased, or other State programs curtailed or eliminated to make up the difference.

NYS SCHOOL BOARDS ASSOCIATION: LOTTERY REVENUES ARE A VALUABLE REVENUE SOURCE

The New York State School Boards Association, believing that the Lottery's contributions to education aid are significant, in February 1992, published a report, "The Relationship of the Lottery to the Support of Public Education in New York State." It explained the Lottery's role in generating revenues for education aid.

Excerpts from the report include:

"No matter how distributed, (Lottery revenues) do constitute a valuable, additional revenue source for education."

"Education in New York State is dependent upon the continuing health of the Lottery. A major shortfall

would most probably result in the shift of an even greater percentage of the burden of total education expenditures onto local taxpayers."

"Over time, the percentage of State aid to education provided by the Lottery has steadily increased. Thus, aid to education is somewhat dependent upon the continuing success of the Lottery."

"Since the introduction of the Lottery (it) has had (a) positive impact on local property tax rates."

"The Lottery does provide a substantial funding source for education, but this revenue can in no way supplant the need for additional strong local financial support for education."

NEW YORK LOTTERY AID TO EDUCATION BY COUNTY IN FISCAL YEAR 1992-93

Albany	\$ 11,593,962.82	Niagara	16,519,855.34
Allegany	4,960,533.83	Oneida	18,189,917.82
Broome	13,304,582.20	Onondaga	31,232,996.90
Cattaraugus	9,172,104.60	Ontario	7,150,771.11
Cayuga	6,341,510.81	Orange	20,812,684.55
Chautauqua	12,334,446.96	Orleans	4,251,671.87
Chemung	7,388,311.55	Oswego	10,736,159.72
Chenango	5,512,987.23	Otsego	4,529,633.93
Clinton	7,133,867.52	Putnam	2,810,328.68
Columbia	3,296,740.58	Rensselaer	10,545,288.18
Cortland	4,158,147.33	Rockland	7,162,470.95
Delaware	3,494,304.25	Saratoga	13,778,608.87
Dutchess	11,479,568.64	Schenectady	8,161,669.09
Erie	60,132,902.05	Schoharie	2,782,050.33
Essex	1,605,222.85	Schuyler	1,393,964.92
Franklin	4,310,924.71	Seneca	2,517,820.78
Fulton	4,997,590.70	St. Lawrence	10,157,438.23
Genesee	5,234,689.74	Steuben	10,140,805.18
Greene	2,300,303.36	Suffolk	62,728,865.50
Hamilton	25,590.01	Sullivan	3,651,894.04
Herkimer	6,099,502.04	Tioga	5,162,399.21
Jefferson	9,385,220.24	Tompkins	5,317,672.13
Lewis	2,814,655.34	Ulster	8,154,739.15
Livingston	4,845,703.91	Warren	3,742,457.66
Madison	5,903,494.28	Washington	5,501,288.11
Monroe	39,469,615.95	Wayne	8,537,332.23
Montgomery	4,203,839.18	Westchester	11,348,489.88
Nassau	21,862,548.53	Wyoming	3,152,630.97
New York City*	304,286,907.93*	Yates	1,154,552.36

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

LOTTERY WINNERS

The typical New York Lottery player is the average New Yorker, man or woman — about 60% of them are between 25 and 49 years of age — with some college education and earning between \$25,000 and \$70,000 annually.

Players from all over the State are Lottery winners. In fiscal year 1992-93, prizes worth nearly \$1.2 billion were awarded to winners holding 105 million winning tickets. That's an average of more than seven and a half winning tickets for each New York adult over the age of 18. The Lottery added 50 new winners to the millionaires' club, bringing the total number of millionaires created in the 26 years of the Lottery to 874.



LOTTO jackpot winners include:

- ❑ Steve Boser, the Western New York town of Allegany's most popular bachelor dairy farmer, won \$24 million, on March 17, 1993.

- ❑ Old friends, Louis Magnotta, 66, of Endwell, and Frank Spinelli, 72, of Endicott, shared \$10 million on February 13, 1993.
- ❑ Virginia Freeman of Syracuse, whose daughter "mistakenly" bought her a ticket, won \$2.5 million on March 20, 1993.
- ❑ The "Office Dames" — ten women who worked in a State office in Newark, New York — won \$10 million playing by group-subscription, August 5, 1992.
- ❑ Frank Bruno, Clintondale deer hunter who didn't get his deer, but returned with big bucks, \$2.25 million, won on November 25, 1992.
- ❑ The "Ring Dings," the family of Margaret Ringwood of Poughkeepsie, shared the \$2.25 million jackpot of October 14, 1992.
- ❑ Michael Perlmutter of Glen Cove, Long Island, won \$30 million in May 1992 top prize for 1992-93.
- ❑ Earl C. Payne of Brooklyn became the second LOTTO jackpot subscription winner in 1992-93 when he won \$3.5 million, September 6, 1992.



- ❑ Peggy Gordon of Brooklyn was a winner of \$3.5 million on March 31, 1993, the last day of the Lottery's fiscal year.

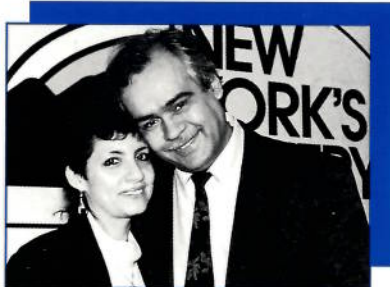
TAKE FIVE First Prize Winners include:

- ❑ Beverly Anderson of the Bronx was one of four winners of \$78,525 on October 2, 1992.
- ❑ Judith Hicks of Kings Park, Long Island, was one of six winners of \$54,345 on March 12, 1993.
- ❑ When TAKE FIVE added a Tuesday drawing on June 16, 1992, James D. Maupin of Rochester was one of four winners of \$50,889 each on that day.





- ❑ George Hauenstein of Charlton became one of 40 TAKE FIVE players to win first prize with a Free Play ticket during 1992-93. He claimed \$72,928 from the drawing of May 1, 1992.
- ❑ Cynthia Ross of Buffalo spent a "sleepless night" waiting for the Lottery office to open the day after she won \$85,312 in September 1992.
- ❑ Greg Bachelor of Celeron in Chautauqua County, and Michael Batko of Auburn, Cayuga County, were each winners of \$77,819 on January 15, 1993.
- ❑ Dolores M. Beamer of Mattydale, a school bus driver for the North Syracuse Schools, won \$28,444 on New Year's Day 1993, joked that now she might drive a "beamer."



There were 4.8 million PICK 10 cash prizes awarded, including 12 top prizes of \$500,000, in fiscal year 1992-93.

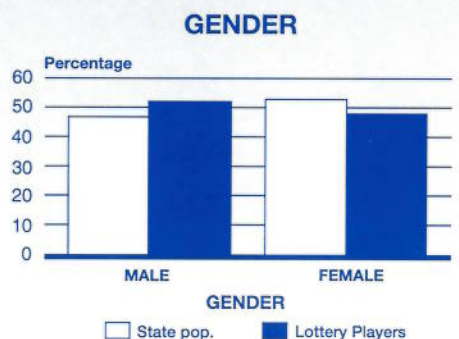
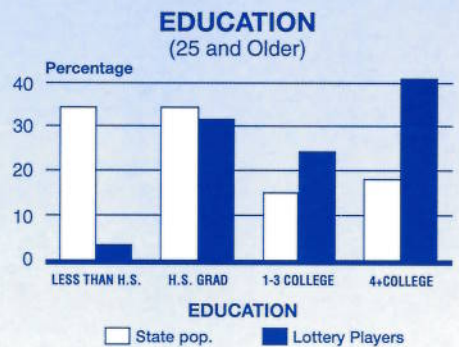
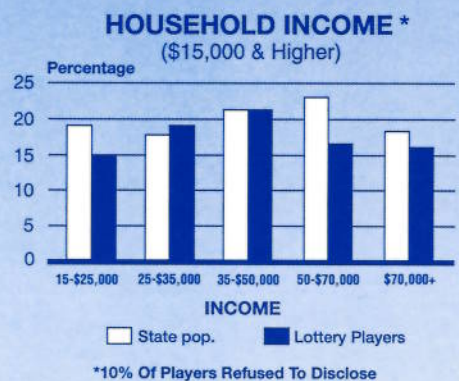
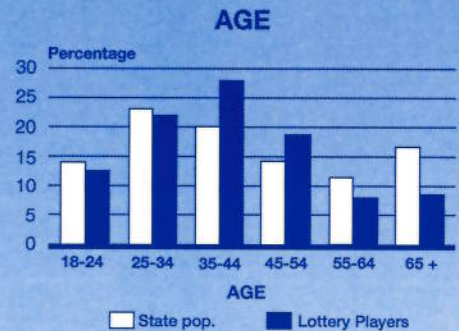
Pick 10 half-million-dollar winners include:

- ❑ Maude Happle of Wading River who won \$500,000 on November 22, 1992.
- ❑ Henderson Williams of Brooklyn who won \$500,000 on May 2, 1992.
- ❑ Lillian Young, 62, of Manhattan became the 44th winner of a lump sum \$500,000 PICK 10 first-prize on February 24, 1993.
- ❑ Anthony Rivera of the Bronx became the 45th winner of \$500,000 in PICK 10 when he won on February 26, 1993.

Among the more than 60 million INSTANT CASH GAME winners during this fiscal year:

- ❑ Patricia Gocella of West Seneca who won \$8,888 in "Crazy 8's" in June 1992.
- ❑ Elmer Loughlin of Meridale who won \$5,000 in "On A Roll" in March 1993.
- ❑ Clifford Kipp of Hudson won \$5,000 playing "Royal Flush" in November 1992.
- ❑ John Lasher of Kingston won \$1,000 playing "High Roller" in April 1992.
- ❑ Juanita Elliott of Clintondale won a \$2,500 top prize in "Jackpot Express" in October 1992.
- ❑ Theodore Czerw of Delmar claimed a \$2,500 "Jackpot Express" prize in January 1993.

PLAYER PROFILES



The sales agent work force is the backbone of the New York Lottery. It is the agents who do the day-to-day work, who answer the needs of players and are identified as representatives of the Lottery by members of the community. Their commitment to the sale of Lottery games and personal investment of precious in-store display areas and window space, as well as manpower and time, is critical for Lottery sales success.

Without a dedicated licensed sales agent network, all advertising and marketing efforts would be useless. They sell tickets, and most times actually make the sale, by marketing at the point-of-sale to players and prospective players alike. In most cases agents cash the majority of players' winning tickets, even if the tickets were not purchased at their locations. Players depend on them for the results and reports of past games that are available to the playing public. Most importantly, they serve as Lottery information centers where regular customers and prospective players can count on getting reliable information. Sales agents are key to Lottery sales success.



There are more than 12,000 members of the Lottery sales agent team across the State. All 12,000 Lottery sales agents sell INSTANT CASH GAMES, and approximately 8,000 of these agents are equipped with computerized Lottery terminals to sell the Lottery's five on-line games.

The Lottery and these businessmen and women form a strong partnership that works for the success of each agent's Lottery enterprise, as well as the success of the Lottery as a whole.

An important account, Stewart's Shops, added 95 new on-line terminals during this year, achieving corporate-wide full-service terminal distribution at all 185 Stewart's Shops.

Sales Agent Identity

During the first quarter of 1993, the New York Lottery implemented a completely redesigned retail identity, and point-of-sale program (POS) with its approximately 12,000 agents in less than three months. Based on extensive agent and player surveys, the new "Lottery look" helps players find the nearest sales agent location where Lottery games are sold.

The identity program creates a clear, consistent image that works for all Lottery agents, yet is flexible enough for players to distinguish between on-line locations (approx. 8,000) and INSTANT CASH GAMES - only locations (approx. 4,000).



Sales Agent Commissions Good For Local Business

From small mom-and-pop shops, who have been part of the same neighborhoods for generations, to the new businesses just starting to grow, sales agent locations serve an important function in business communities. The 6 percent commissions sales agents earn on their Lottery ticket sales help to enhance their local economies.

During fiscal year 1992-93, sales agents earned \$141.6 million in commissions. This represents a 14 percent increase or \$17.8 million more in commissions than the previous year.

Lottery sales agent commissions help keep local businesses thriving and, in turn, help their local communities and New York State remain economically viable.

LOTTERY IN THE COMMUNITY

Community Involvement

By participating in community events and promotions, the New York Lottery expands its presence in communities throughout the State.

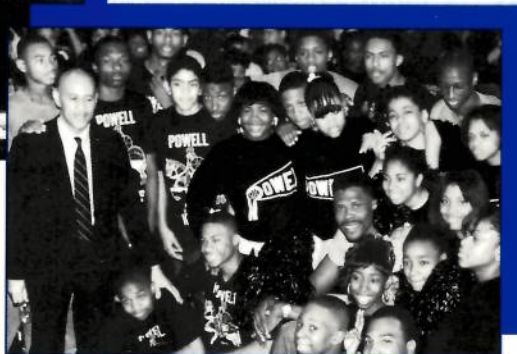
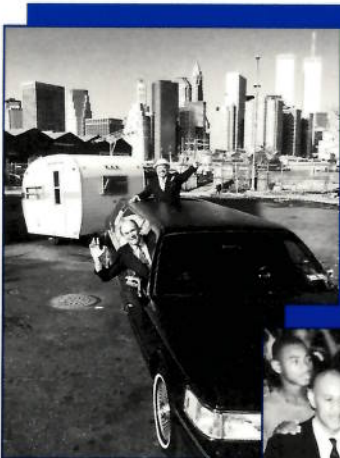
Community activities included participation at the New York State Fair as well as county and street fairs such as Queens Day, Black Expo and Hispanic Fair. The Lottery has exhibits at local shopping malls, sales promotions, contests, and giveaways, for Lottery players to help philanthropic organizations and to support local sports. The Lottery sponsored 323 promotions in fiscal year 1992-93.

The Lottery helped raise funds for children's hospitals all across the State through a promotion with the Children's Miracle Network Telethon, and donated LOTTO subscriptions for the fund-raising auctions of the Public Broadcasting Television

Stations in Albany, Syracuse, Buffalo, Rochester and on Long Island. Continuing its long history of supporting New York sports teams and events (and, at the same time, marketing to a key segment of the Lottery's target audience — sports fans), the Lottery conducted promotions with such popular sports franchises as the Yankees, Mets, Jets, and Rangers, as well as the Buffalo Sabres, the New York Islanders and Knicks, the Syracuse University Orangemen, New York teams in the American Hockey League and other local teams.

A special LOTTOLOOT promotion with the Daily News offered drawings with 17 winners and \$13,000 in prizes each week for 10 weeks. All prize winners were eligible for a grand prize drawing for \$500,000 and a Cadillac Eldorado.

A special "Hey You Never Know" LOTTO Limousine promotion heightened awareness of the Lottery's top-selling game, LOTTO, by bringing the advertising to life in communities around the State. Local radio stations conducted "spot the LOTTO Limousine" giveaways as part of this promotion.



SALES AGENTS CARE ABOUT PLAYERS



Patricia Snook
Manager of Albany Airport Newsstand.

Bob Fitzgerald of Troy, New York, played his favorite WIN 4 numbers at the Albany Airport Newsstand just before getting on a plane. In a hurry, he left his ticket behind on the counter. The newsstand clerk noticed the ticket and put it away for safekeeping with the hope that the person who lost it might return to claim it.

Mr. Fitzgerald read that his was a winning ticket. He thought that surely someone by now had found it and claimed the prize.

When he called to ask if, by some one-in-a million chance, someone turned in his ticket, he discovered that his agent was holding his ticket for him. Bob claimed his ticket and his prize thanks to his agent.

LOTTERY GAMES

NEW YORK
LOTTO

TAKE FIVE

NEW YORK
NUMBERS

The New York Lottery is a multi-game entertainment business that provides players with a choice of fun — a variety of games with different styles of play, varying prize levels, and daily and semi-weekly drawings. Player conveniences offered by the Lottery, such as subscriptions for LOTTO, and INSTANT CASH GAMES vending machines, enhance the enjoyment, making playing the games easy and exciting entertainment.

On-Line Games

Five Lottery games - LOTTO, PICK 10, NEW YORK NUMBERS, WIN 4 and TAKE FIVE - are run on the Lottery's on-line computer system. From the 8,000 on-line terminals at sales locations all across the State, this system routinely processes more than 43 million transactions a week. For each on-line game, the Lottery conducts live drawings. During this fiscal year, negotiations

began with network television affiliate stations throughout the State for exclusive agreements to air the live drawings on local channels. The Lottery's on-line computer system not only collects and keeps track of players' transactions, but also calculates, in the hours immediately after each drawing, the prize amounts and numbers of winners in order to provide this data to sales agents and the public as soon after the drawings as possible.

LOTTO

LOTTO is the multi-million dollar jackpot pari-mutuel game where players select six numbers from a field of 54. To win the jackpot, which starts at more than \$2 million, players must match all six randomly-drawn numbers. Prizes are also awarded for matching five numbers, four numbers and three numbers plus the supplementary number. LOTTO drawings are held twice weekly, on Wednesday and Saturday.

TAKE FIVE

TAKE FIVE is a pari-mutuel game. Players choose five numbers from a field of 39. Cash prizes are awarded for matching five, four and three numbers, and a bonus "Free Play" ticket is awarded for matching just two numbers. Free Plays are "Quick Pick" tickets good for a subsequent TAKE FIVE drawing that must be collected within 45 days from a Lottery agent. With overall odds of 1 in 8.77, TAKE FIVE creates hundreds of thousands of winners for each drawing. TAKE FIVE drawings are now held twice weekly, on Tuesday and Friday.

NEW YORK NUMBERS and WIN 4

Players who enjoy the excitement of Lottery games on a daily basis, play one of the numbers-type games, each of which





creates thousands of winners every week. NEW YORK NUMBERS, in which a three-digit number is drawn, awards prizes ranging from \$25 to \$500. WIN 4, in which a four-digit number is drawn, awards prizes from \$100 to \$5,000. Both NEW YORK NUMBERS and WIN 4 drawings are televised consecutively each evening. NEW YORK NUMBERS and WIN 4 players also enjoy the Lottery's popular Bonus Weeks with prize payouts increased for every combination of play by at least 20 percent.

PICK 10

Another daily game, PICK 10, offers a top prize of a half-million dollars in cash. Players choose 10 numbers from a field of 80. Each

night, the Lottery draws 20 winning numbers. Winners receive prizes for matching 10, 9, 8, 7, 6 and even zero of the 20 numbers drawn. Players matching all 10 numbers win a top prize of \$500,000 paid in one lump sum.*

INSTANT CASH GAMES

New Yorkers who want to win instantly play INSTANT CASH GAMES. Players rub off latex coatings on the tickets to see if they win prizes which range from \$1 to \$5,000, depending upon the game.

Nine new INSTANT CASH GAMES were introduced in 1992-93. The year's most popular games were Aces High, Cold Cash and On A Roll.

Player Conveniences

QUICK PICK — Even if you're in a hurry, it's easy to play all

computerized Lottery games. With QUICK PICK, the agent's sales terminal randomly selects game numbers in just a few seconds for players.

ADVANCE PLAY—TAKE FIVE and LOTTO players can purchase tickets up to two drawings in advance with the Lottery's advance-play option.

SUBSCRIPTION — LOTTO players, both individuals and groups, can choose to play conveniently from their own homes through the Lottery's subscription program in which subscribers' numbers are automatically entered into each drawing. Subscriptions of up to one-year are available. There have been 24 subscription LOTTO jackpot winners to date.

*If there are more than 10 jackpot winners for one drawing, the total jackpot prize pool of \$5 million is divided equally among all jackpot winners.



Television

Televised drawings, aired throughout the State, are conducted for each of the Lottery's on-line games except PICK 10. Nearly 1,300 live drawings are conducted each year. To ensure the security and integrity of each drawing, the Lottery's team of drawing professionals follows very detailed procedures under the observation of an independent auditor from the accounting firm of Coopers & Lybrand.

The drawing machines, made especially for the Lottery, feature a security-enhanced design. Each Lottery ball is made to order and checked regularly by the New York State Bureau of Weights and Measures to ensure uniformity of size, shape and weight.

The drawings begin once word is received from Lottery headquarters that the game sales are closed. Following exacting procedures, the team conducts pre-test and post-test drawings to ensure the randomness of ball selection. The drawing machines, designed especially for the New York Lottery, are

the models used by many other lotteries worldwide because of a security-enhanced design that uses electronically controlled gates to randomly select the balls.

Since the debut of TAKE FIVE, the Lottery has updated the look of the drawings. Once again, in fiscal year 1992-93, the look of the drawings was modified to meet anticipated new network televising and marketing needs.

Each set design tries to capture the essence of the particular game, incorporating the colors and logos that create its individual identity for the player.

Radio

The Lottery News Network, a two-minute radio show, aired on 15 stations around the State on Wednesdays and Fridays, began during the last part of this fiscal year, on March 3, 1993. The program brings information, winners interviews, news and trivia to

thousands of listeners twice a week during morning and evening drive times.

"Station Tune-in" posters were distributed to ticket sellers so that players and the general public could be made aware of the Lottery News Network and know where and when to tune in to hear the show.

Recorded in Schenectady, home of the New York Lottery, the shows include:

- Sales agents experience with players and winners.
- Lively banter between celebrity hosts.
- News about new games, special bonuses, lucky winners and big jackpots.
- Lottery tales, trivia and the unusual ways people have for picking numbers.
- Interviews with winners from across the State — showing how the Lottery has changed their lives.
- Audience participation.



NEW YORK
LOTTERY
NEWS NETWORK

REPORT OF INDEPENDENT ACCOUNTANTS

Coopers
& Lybrand

certified public accountants

New York State Lottery

We have audited the accompanying statements of assets and liabilities of the New York State Lottery as of March 31, 1993 and 1992, and the related statements of revenues and expenses and cash flows 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, 1993 and 1992, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Coopers & Lybrand

Albany, New York
May 28, 1993

STATEMENTS OF ASSETS AND LIABILITIES

March 31, 1993 and 1992 (in Thousands)

	1993	1992
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 141,766	\$ 98,571
Accounts receivable	47,051	44,025
Investments, at amortized cost	143,459	131,507
Total current assets	332,276	274,103
Long-term investments, at amortized cost	1,110,642	1,021,746
Equipment and leasehold improvements, net of accumulated depreciation and amortization	7,597	9,002
Total assets	\$1,450,515	\$1,304,851
LIABILITIES		
Current liabilities:		
Prizes payable	\$ 144,264	\$ 131,731
Unclaimed and future prizes	90,524	76,991
Due to education	68,755	29,889
Due to administration	7,835	12,026
Deferred revenue	8,801	
Other payables	6,085	18,464
Total current liabilities	326,264	269,101
Long-term prizes payable	1,124,251	1,035,750
Commitments and contingencies (Note 10)		
Total liabilities	\$1,450,515	\$1,304,851

STATEMENTS OF REVENUES AND EXPENSES

For the Years Ended March 31, 1993 and 1992 (In Thousands)

	1993	1992
Ticket sales	\$2,360,010	\$2,063,069
Less:		
Prizes	(1,101,760)	(968,708)
Agent commissions	(141,604)	(123,827)
Contractor fees	(56,933)	(58,259)
Gross profit on ticket sales	1,059,713	912,275
General and administrative expenses	65,144	54,320
Income from operations	994,569	857,955
Nonoperating revenues (expenses):		
Interest income	110,006	105,809
Interest expense-amortization of discount on prizes payable	(105,167)	(97,663)
Other, net	1,653	576
Total nonoperating revenues	6,492	8,722
Income earned and required allocation to education, net	\$1,001,061	\$ 866,677
Components of income earned (loss) and required allocation to education, net:		
New York State	\$1,003,066	\$ 865,153
New York City (Note 1)	(2,005)	1,524
	\$1,001,061	\$ 866,677

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

STATEMENTS OF CASH FLOWS

For the Years Ended March 31, 1993 and 1992
 Increase (Decrease) in Cash and Cash Equivalents (In Thousands)

	1993	1992
Cash flows from operating activities:		
Cash received from ticket sales	\$2,366,348	\$2,054,521
Cash payments for prizes	(1,092,255)	(976,631)
Cash payments for commissions and fees	(199,090)	(182,105)
Cash payments for general and administrative expenses	(68,010)	(44,330)
Net cash provided by operating activities	1,006,993	851,455
Cash flows from noncapital financing activities:		
Cash transfer to education	(962,195)	(844,925)
Cash flows from capital and related financing activities:		
Cash payments for equipment and leasehold improvements	(2,171)	(3,310)
Principal payments on capital lease	(898)	(842)
Net cash used in capital and related financing activities	(3,069)	(4,152)
Cash flows from investing activities:		
Proceeds from investment maturities	137,052	124,596
Proceeds from sale of investments	8,732	5,951
Purchases of investments	(149,811)	(147,277)
Interest on cash and cash equivalents	4,572	7,581
Net proceeds from swaps of investment securities	407	
Other cash payments and receipts, net	514	561
Net cash provided by (used in) investing activities	1,466	(8,588)
Net increase (decrease) in cash and cash equivalents	43,195	(6,210)
Cash and cash equivalents, beginning of year	98,571	104,781
Cash and cash equivalents, end of year	\$ 141,766	\$ 98,571
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ 994,569	\$ 857,955
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization	1,533	1,012
Changes in assets and liabilities affecting income from operations:		
Accounts receivable	(3,091)	(8,522)
Prizes payable	(4,132)	13,062
Unclaimed and future prizes	13,533	(19,967)
Due to administration	(4,254)	7,405
Deferred revenue	8,801	
Other payables	34	510
Net cash provided by operating activities	\$1,006,993	\$ 851,455

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

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The New York State Lottery (the "Lottery") was established in 1967. The Lottery is currently administered by the Division of the Lottery, an independent unit of the Department of Taxation and Finance, which was created in 1976 and operates in accordance with the provisions of the New York State Lottery for Education Law (Tax Law Article 34). 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 as 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.

During fiscal year 1992, Chapter 6 of the Laws of 1991 created a special anti-crime instant cash game (the City games) for sale only within the City of New York. Its purpose was to generate revenue for educational purposes, including security at educational facilities, within New York City. The City games began in September 1991 and are authorized by the legislation to continue through June 1996. The New York State Lottery will administer the City games and will be reimbursed for administrative costs (including agent commissions and contractors' fees) of the games up to a maximum of 15 percent of games sales. The law also has a hold harmless provision which requires the City games to reimburse the Lottery for shortfalls in net revenue, as defined, resulting from other instant cash games administered by the Lottery in the City of New York not increasing at an annual rate of 5 percent. Shortfalls approximated \$2,995,000 and \$567,000 in fiscal years 1993 and 1992, respectively.

Revenue Recognition—On-line Games: Revenue from ticket sales for Lotto, Take Five, Pick 10, New York Numbers and Win-4 games (on-line games) is recognized when the related drawing takes place. Revenue from subscription sales and other ticket sales for future drawings is recorded as deferred revenue.

On January 17, 1992, the Lottery replaced Cash 40 with Take Five, a game with similar features.

Instant Cash Games: Revenue from completed instant cash 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 cash 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 cash game ticket contractor.

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 10).

Allocation of Revenue from Ticket Sales—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 30 percent for the New York State Lottery instant cash games, 35 percent for New York Numbers, Win-4 and Pick 10, and 45 percent for Lotto, Take Five and Cash 40. During fiscal year 1992, legislation was passed changing the allocation of ticket sales revenue to education from 35 percent to 30 percent for instant cash games and from 45 percent to 35 percent for Pick 10.

- allocations of ticket sales revenue to New York City for educational purposes to be at least 35 percent for the New York City instant cash games, less any reimbursement to the Lottery for shortfalls in net revenue, as defined.

- allocations of ticket sales revenue for the payment of lottery prizes not to exceed 55 percent for the New York State Lottery instant cash games, 50 percent for the New York Numbers, Win-4, Pick 10 and the New York City instant cash games, and 40 percent for Lotto, Take Five and Cash 40. During fiscal year 1992, legislation was passed changing the allocation of ticket sales revenue to prizes from 50 percent to 55 percent for New York State Lottery instant cash games and from 40 percent to 50 percent for Pick 10.

- 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 \$92,337,000 and \$74,995,000 for fiscal years 1993 and 1992, respectively. Administration expenses incurred by the Lottery represent telecommunications, advertising, salary and other operating costs and include an accrual for expenses to be paid after the fiscal year-end.

Cash Equivalents—For purposes of the statements of cash flows, the Lottery considers cash equivalents to be 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 the Short-term Investment Pool, which is used for the temporary investment of funds not required for immediate payments.

Investments—Investments, consisting of U.S. Government-backed obligations (zero coupon bonds and stripped Government securities), are carried at amortized cost. The periodic amortization of discount is recorded as interest income in these financial statements.

Equipment and Leasehold Improvements—Equipment and leasehold improvements are carried at cost. Depreciation of equipment is computed using the straight-line method over five years, the estimated useful lives of the assets. Amortization of leasehold improvements and equipment acquired under capital leases are amortized using the straight-line method over ten and five years, respectively, which is the lesser of their useful lives or the term of the leases.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts and any resulting gain or loss is reflected in nonoperating revenues (expenses) in the period of disposal.

Prizes Payable—Prizes payable represents the liability for those prizes which are payable in annual installments. Such prize payments are funded by the Lottery's investment in U.S. Government-backed securities. The periodic amortization of discount is recorded as interest expense in these financial statements. Any excess of investment maturities over prize payments is made available for prizes.

Unclaimed and Future Prizes—Prizes unclaimed for one year after the drawing date are forfeited by the ticket holder. Total prizes unclaimed amounted to approximately \$33,774,000 and \$36,886,000 for fiscal years 1993 and 1992, respectively.

Legislation passed in June 1991 allows the Lottery to retain unclaimed prizes and to use such amounts for payment of supplemental prizes in subsequent Lottery games. During fiscal year 1993 and 1992, such supplemental prizes were paid for Lotto and Take Five. Prior to this legislation, unclaimed prizes were allocated to education. Such allocations amounted to approximately \$6,515,000 for fiscal year 1992.

Future prizes represent the difference between the statutory 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.

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 \$141,712,000 and \$91,408,000 at March 31, 1993 and 1992, 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. Amounts of cash balances included in cash and cash equivalents related to sole custody accounts were \$54,000 and \$7,163,000 for fiscal years 1993 and 1992, respectively.

The Lottery's deposits are collateralized under a program administered by the Office of the State Comptroller of the State of New York. The State requires that its depository banks pledge collateral based on available bank balances. All securities pledged as collateral are held by the State's fiscal agent in the name of the State. The Lottery's deposits with financial institutions were fully collateralized at fiscal year-end.

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 prizes payable (see Note 5). During fiscal years 1993 and 1992, approximately \$105,492,000 and \$98,525,000, respectively, of amortized discount was included in interest income.

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

	1993	1992
Maturity value	\$2,311,496	\$2,194,074
Less unamortized discount	1,057,395	1,040,821
Total carrying value	1,254,101	1,153,253
Less: investments, maturing		
within one year	143,459	131,507
Long-term investments	\$1,110,642	\$1,021,746
Total market value	\$1,470,605	\$1,258,323

Maturities of the investments in each of the five fiscal years following March 31, 1993, and the total thereafter, are as follows (in thousands):

1994	\$ 148,913
1995	149,661
1996	149,665
1997	149,654
1998	149,825
1999 and thereafter	1,563,778
	<u>\$2,311,496</u>

The Lottery periodically enters into certain swap transactions whereby stripped government securities are swapped for other stripped government securities with substantially identical terms and characteristics. During fiscal year 1993, the face value of the securities swapped amounted to \$180,832,000 resulting in a gain of approximately \$407,000. This gain is included in nonoperating revenues in the caption "other, net."

The Lottery's investments are categorized to give an indication of the level of risk assumed by the Lottery at year-end. All of the Lottery's investments are included in category "A", the lowest risk, as defined by the Governmental Accounting Standards Board to include investments that are "insured or registered or securities held by the Lottery or its agent in the Lottery's name."

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

4. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements as of March 31, 1993 and 1992 are as follows:

	1993	1992
Equipment (principally a capital lease)	\$5,932,921	\$5,804,512
Leasehold improvements	4,526,017	4,526,017
	<u>10,458,938</u>	<u>10,330,529</u>
Less: accumulated depreciation and amortization	(2,861,943)	(1,328,915)
Equipment and leasehold improvements, net	<u>\$7,596,995</u>	<u>\$9,001,614</u>

During fiscal 1991, the Lottery entered into a \$4,700,000 capital lease for new computer equipment. The lease is for a five-year term and requires ten semi-annual payments approximating \$573,000 each, including interest through March 1996. Accumulated amortization for the equipment recorded under the capital lease approximated \$1,955,000 and \$1,086,000 for fiscal years 1993 and 1992, respectively.

5. PRIZES PAYABLE

Prizes payable consisted of the following at March 31 (in thousands):

	1993	1992
Total obligation	\$2,321,469	\$2,203,978
Less: unamortized discount	1,052,954	1,036,497
Total carrying amount	1,268,515	1,167,481
Less: prize payable		
within one year	144,264	131,731
Long-term prizes payable	<u>\$1,124,251</u>	<u>\$1,035,750</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The amortized discount on the prizes payable is based on interest rates which range from 3.01 percent to 13.55 percent and reflect the interest rates earned by the investments held to fund the related liabilities. The amortization of discount is recorded as interest expense in the statements of revenues and expenses and amounted to \$105,167,000 and \$97,663,000 for the fiscal years 1993 and 1992, respectively.

The aggregate amount of prizes payable due in each of the five fiscal years following March 31, 1993, and the total thereafter, is as follows (in thousands):

1994	\$ 149,648
1995	149,263
1996	149,263
1997	149,263
1998	149,263
1999 and thereafter	1,574,769
	<u>\$2,321,469</u>

The fair value of prizes payable approximates \$1,488,000,000 at March 31, 1993.

6. OPERATING SEGMENT INFORMATION

Operating segment information for fiscal 1993 and 1992 by type of lottery game is as follows (in thousands):

	1993				
	Ticket Sales	Prizes	Agent Commissions	Contractor Fees	Gross Profit On Ticket Sales
Lotto	\$ 696,277	(\$ 280,859)	(\$ 41,777)	(\$12,098)	\$ 361,543
Take Five	274,555	(110,170)	(16,477)	(4,973)	142,935
Pick 10	91,221	(45,726)	(5,473)	(1,658)	38,364
New York Numbers	652,271	(326,962)	(39,136)	(11,758)	274,415
Win-4	355,362	(178,131)	(21,322)	(6,414)	149,495
Instant Cash Games	287,613	(158,553)	(17,256)	(19,846)	91,958
City Games	2,711	(1,359)	(163)	(186)	1,003
	<u>\$2,360,010</u>	<u>(\$1,101,760)</u>	<u>(\$141,604)</u>	<u>(\$56,933)</u>	<u>1,059,713</u>
General and administrative expenses					(65,144)
Nonoperating revenues (expenses)					6,492
Income earned and required allocation to education, net					<u>\$1,001,061</u>

Components of loss and required allocation to education for New York City of (\$2,005) in fiscal year 1993 are gross profit on the City Games of \$1,003 less general and administrative expenses of \$33 and nonoperating expenses (net) of \$2,975.

	1992				
	Ticket Sales	Prizes	Agent Commissions	Contractor Fees	Gross Profit On Ticket Sales
Lotto	\$ 618,062	(\$246,645)	(\$ 37,083)	(\$11,607)	\$322,727
Take Five	41,519	(16,716)	(2,534)	(750)	21,519
Pick 10	108,941	(51,044)	(6,536)	(2,138)	49,223
New York Numbers	628,460	(315,172)	(37,708)	(12,180)	263,400
Win-4	321,562	(161,118)	(19,294)	(6,238)	134,912
Instant Cash Games	280,342	(151,935)	(16,821)	(23,795)	87,791
City Games	5,907	(2,956)	(354)	(377)	2,220
Cash 40	58,276	(23,122)	(3,497)	(1,174)	30,483
	<u>\$2,063,069</u>	<u>(\$968,708)</u>	<u>(\$123,827)</u>	<u>(\$58,259)</u>	<u>912,275</u>
General and administrative expenses					(54,320)
Nonoperating revenues (expenses)					8,722
Income earned and required allocation to education					<u>\$866,677</u>

Components of income earned and required allocation to education for New York City of \$1,524 in fiscal year 1992 are gross profit on the City games of \$2,220 less general and administrative expenses of \$146 and nonoperating expenses (net) of \$550.

Amounts included above for prizes are based upon the statutory allocation of total sales revenue for each of the Lottery games. Actual prizes paid or to be paid to winners may be higher when the Lottery supplements prizes with unobligated amounts included in unclaimed and future prizes.

7. EDUCATION

Income earned and required allocation to education during the fiscal years ended March 31, 1993 and 1992 are as follows:

	1993	1992
Revenue transferred to education	\$ 962,195	\$ 844,925
Prior year payable	(29,889)	(8,137)
Amount transferred from		
current year revenue	932,306	836,788
Current year payable	68,755	29,889
Income earned and required allocation to education, net	\$1,001,061	\$ 866,677

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 Lottery employees covered by the system for the year ended March 31, 1993 was approximately \$7,708,000; the Lottery's total payroll was approximately \$7,917,000.

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 noncontributory 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 non-contributory 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 on or after July 27, 1976 and leaves covered employment before 10 years of credited service may obtain a refund including interest of the accumulated employee contributions. 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, 1992 (1993 plan data is not available) totaled approximately 812,642, including 264,452 retirees and beneficiaries currently receiving benefits and no longer working members entitled to benefits but not yet receiving them; 67,010 nonvested inactive members, and 481,180 current working members.

The contribution requirement for the year ended March 31, 1993 was \$388,317, which consisted of \$237,524 from the Lottery and \$150,793 from employees; these contributions represented 3.1% and 2.0% of covered payroll, respectively.

The contribution requirement for the year ended March 31, 1992 was \$303,127, which consisted of 154,807 from the Lottery and \$148,320 from employees; these contributions represented 2.0% and 1.9% 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, 1992 for the System as a whole, determined through an actuarial valuation performed as of that date, was \$44,034,000,000. The System's net assets available for benefits on that date (valued at market) were \$45,503,000,000 resulting in assets in excess of pension benefit obligation of \$1,469,000,000. The Lottery's 1992 contribution represented .1 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, 1992 annual financial report.

9. 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.

10. COMMITMENTS AND CONTINGENCIES

Contractual arrangements: — Presently, 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 Automated Wagering International, Inc. (AWI), formerly Control Data Corporation. The GTECH contract, entered into on February 28, 1993, expires on February 28, 1999. The AWI contract expires August 31, 1993 and will not be renewed. As a result, GTECH will be the only remaining contractor upon expiration of the AWI contract.

In connection with the award of the on-line games contract to GTECH in December 1992, AWI commenced a proceeding in the New York State Supreme Court seeking a judicial review of the contract award. On May 10, 1993, the Supreme Court affirmed the Lottery award decision, which AWI has indicated it will appeal. If AWI's appeal is successful, the Lottery might be required to conduct a further procurement which could result in a new contract at less favorable terms than the GTECH contract. It is the opinion of management and in-house counsel that the

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Lottery's award decision will be affirmed on appeal and that the outcome of this litigation will not have a material adverse impact on the financial position of the Lottery.

The New York State Lottery also contracts the operations of the instant cash games with Scientific Games, Inc. This contract is for a term of two years expiring January 13, 1994.

Contractor fees are based on a percentage of ticket sales as defined in the respective contracts.

Insurance Contracts: — Prior to 1983, the Lottery had entered into agreements with New York insurance companies under which the Lottery purchased contracts that provide payments corresponding to the Lottery's obligation to the prize winners. The types of contracts entered into include agreements that pay installments for a specific term (investment contracts) as well as agreements to make installment payments to prize winners over the winners' lifetime. Because it is the intent of the Lottery that the insurance companies make future installment payments directly to each prize winner, the present value of the future payments under these contracts are not 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 the investment contracts approximated \$90,000,000 at March 31, 1993. For contracts other than investment contracts, the insurance companies are making annual payments to sixty-five individuals totaling approximately \$1,200,000 as of March 31, 1993.

At March 31, 1993, the fair value of the investment contracts approximates \$65,000,000.

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 had estimated the amount of retroactive adjustment to approximate \$10,108,000. During fiscal year 1993, the Lottery paid \$1,900,000 in full settlement of this matter.

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

In December 1991, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 107, **Disclosures about Fair Value of Financial Instruments**. This Statement requires the disclosure of estimated fair values for all financial instruments for which it is practicable to estimate fair value.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and Cash Equivalents: — The carrying amount of cash and cash equivalents approximates fair value because of their short maturity.

Investments: — The fair value of investments is based on quoted market prices (see Note 3).

Prizes Payable: — The relationship between the fair value and carrying value of prizes payable approximates the relationship between the fair value and carrying value of the investments held to fund the related liabilities. Accordingly, the fair value of such liabilities has been estimated using the quoted market value of the investments (see Note 5).

Investment Contracts: — For the Lottery's investment contracts, the fair value is based on the estimated discounted values of future cash flows. The discount rates used to calculate the fair value of the contracts were obtained from the insurance companies from which the contracts were purchased and range from 6.5% to 10.7% (see Note 10).



Printed on recycled paper.