

NEW YORK LOTTERY

An Enterprise Fund of the State of New York

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended March 31, 2009

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Prepared by

Financial Management Unit

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INTRODUCTORY SECTION



Gordon Medenica, Director

September 28, 2009

To readers of the New York Lottery's Comprehensive Annual Financial Report:

We are pleased to present the Comprehensive Annual Financial Report of the New York Lottery for the fiscal year ended March 31, 2009. This report has been prepared by the Financial Management Unit of the New York Lottery. The New York Lottery is responsible for the accuracy and fairness of all information included in this report. To the best of our knowledge, the report presents fairly in all material respects the financial position of the Lottery and the results of its operations for the period covered.

The report is presented in three sections: Introductory, Financial, and Statistical. The Introductory Section contains this transmittal letter, which provides an overview of the Lottery and its annual report, and the Lottery's organizational chart which lists principal officials and their respective positions within the agency. The Financial Section contains the Lottery's basic financial statements, the notes to the statements, and the independent auditor's report. It also includes Management's Discussion and Analysis which is supplementary information to the statements and offers readers a general overview and analysis of the Lottery's financial position and activities for the years covered by the statements. The Statistical Section includes certain financial, economic, and demographic data for the New York Lottery over the last ten years or as many as are available.

The New York Lottery was established in 1967 as a result of a constitutional amendment. It is currently administered by the Division of the Lottery, an independent unit of the Department of Taxation and Finance. It is operated in accordance with provisions of the New York State Lottery for Education Law (Tax Law Article 34). The mission of the Lottery is to raise revenue for education in the state of New York through the administration of lottery games.

The Lottery is included within the financial reporting entity of the State of New York as an enterprise fund. This report represents only the financial position and activities of the Lottery and not the corresponding financial position and activities of the State of New York.

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History of the New York Lottery

In November 1966, a Constitutional Amendment was approved by 61% of New York voters to establish the New York Lottery. Subsequently, Article 1, Section 9 of the Constitution of the State of New York was adopted to allow lotteries operated by the state, with net proceeds to be applied in aid or support of education. A lottery commission was established as a division of the Department of Taxation and Finance and the first lottery ticket was sold in New York in June, 1967. New York was the second state, behind New Hampshire, to conduct Lottery sales.

Administrative responsibilities for the Lottery were later transferred to the New York State Racing and Wagering Board. The Lottery was then reconstituted in 1976, and the Division of the Lottery was established as an independent division of the State Department of Taxation and Finance. Instant ticket sales resumed under this “new” Lottery in September 1976.

In November 1978, a popular European game called “Lotto” was introduced in New York with an initial jackpot of \$250,000. The new game steadily gained in popularity until a computerized or “online” system of play was introduced in 1980 and the excitement of “Lottomania” began in New York. That was followed by the introduction of the Daily Numbers 3-digit game in September, 1980 and the Win 4 four-digit game in 1981. These staple games kicked off a period of unprecedented growth in New York Lottery sales.

In 1987 a Keno game called “Pick 10” was introduced, followed in January 1992 by the addition of Take Five – a pari-mutuel game with a smaller, but more winnable jackpot than Lotto. At the beginning of 1994, new instant game technology was integrated into online sales terminals statewide. These new features improved management of instant game tickets, accounting, security, and validation. For the first time, Lottery retailers were able to pay prizes regardless of the place of purchase, order tickets through a telemarketing system, and receive “hassle-free” automatic shipments of all new instant game launches. As a result, instant game sales increased from \$298 million in 1994 to over \$1 billion by 1997.

In 1995, legislation authorized the implementation of Quick Draw, a monitor game offering more play options and prizes than Pick 10. Quick Draw sales commenced in September 1995 at social environment locations throughout the state.

Following the terrorist attacks on the World Trade Center in 2001, the State Legislature permitted New York’s entry into a multi-state lottery game and authorized video lottery gaming at certain pari-mutuel racetracks. As a result, the Lottery joined the multi-state Mega Millions game in May 2002.

In January 2004, the New York Lottery opened the doors of the first video lottery gaming facility in the state. Video lottery gaming terminals operate as electronic instant lottery games. A central determinant computer system draws winners from a centralized finite prize pool. Winning tickets are secure and pre-determined within the centrally located monitoring and control system. Video gaming facilities are now operational at eight racetracks throughout the state.

Traditional Lottery Games

The New York Lottery offers players the chance to participate in many various draw and instant games through a retailer network of approximately 16,000 retailers. Current offerings include eight draw games, as well as the introduction of approximately 30 new instant games each year. The wide variety of Lottery games offer different methods of play, ranges of jackpot prizes, and convenience aspects that make playing the games fun, easy, and exciting entertainment.



INSTANT GAMES are played by scratching a covering from pre-printed tickets to reveal prizes. There are a large variety of games and price points available for sale at any given time.



LOTTO is played by choosing 6 numbers from a pool of 59 and is still played for two games for one dollar. A player wins the jackpot by matching all 6 winning numbers drawn, but can also win other prizes by matching at least 3 winning numbers. Players can select to receive the jackpot in annual installments or in one lump sum payment. Lotto includes an **Extra** feature where players can win additional prize levels using a bonus ball for an extra one dollar play. Drawings are held twice per week, every Wednesday and Saturday. Lotto and Lotto Extra are also available by subscription.



MEGA MILLIONS is a multi-jurisdictional game in which the New York Lottery participates with California, Georgia, Illinois, Massachusetts, Maryland, Michigan, New Jersey, Ohio, Texas, Virginia, and Washington. Players choose 5 numbers from a pool of 56 and 1 number from a pool of 46 numbers. A player wins the jackpot by matching all 6 winning numbers drawn. Smaller prizes ranging from \$2 to \$250,000 can be won by matching 1 to 5 numbers. Players can select to receive the jackpot in annual installments or in one lump sum payment. Tickets cost one dollar and drawings are held twice per week, every Tuesday and Friday. Mega Millions is also available by subscription.



NUMBERS is played by choosing a 3 digit number. A player wins prizes ranging from \$25 to \$500 by matching the winning numbers drawn. Wagers begin at fifty cents and drawings are held twice per day. **Lucky Sum** is an added feature that allows **Numbers** players to win additional prizes by matching the sum of the player's numbers to the sum of the winning numbers drawn for an extra one dollar wager. An **Instant Win** feature also allows players to win up to \$500 instantly for an additional one dollar wager by matching their numbers to a set of numbers randomly generated at the point of sale terminal.



WIN 4 is played by choosing a 4 digit number. A player wins prizes ranging from \$25 to \$5,000 by matching the winning numbers drawn. Wagers begin at fifty cents and drawings are held twice per day. **Lucky Sum** is an added feature that allows Win 4 players to win additional prizes by matching the sum of the player's numbers to the

sum of the winning numbers drawn for an extra one dollar wager. An **Instant Win** feature also allows players to win up to \$500 instantly for an additional one dollar wager by matching their Win 4 numbers to a set of numbers randomly generated at the point of sale terminal.



TAKE FIVE is played by choosing 5 numbers from a pool of 39. A player wins the jackpot by matching all five winning numbers drawn, but can also win other prizes by matching at least 2 of the winning numbers. Tickets cost one dollar and drawings are held every night.



SWEET MILLION is played by choosing 6 numbers from a pool of 40. A player wins the jackpot of \$1 million by matching all six winning numbers drawn, but can also win other prizes by matching at least 3 of the winning numbers. Tickets cost one dollar and drawings are held twice per week, every Monday and Thursday. This game was launched in FY 2009-10 and had no impact on sales in FY 2008-09.



PICK 10 is played by choosing 10 numbers from a pool of 80. A player wins the jackpot of \$500,000 if all 10 of their numbers are included among 20 winning numbers drawn by the Lottery. Wagers begin at one dollar. Other prizes can also be won by matching 0,6,7,8, or 9 of the winning numbers drawn. Drawings are held every night.



QUICK DRAW is played by choosing 1 to 10 numbers from a pool of 80. A player wins prizes ranging from \$1 to \$100,000 based on how many numbers they match to the 20 winning numbers drawn by the Lottery. Wagers begin at one dollar. An **Extra** multiplier feature gives players a chance to increase their prize. Drawings are held every 4 minutes on a daily basis from 10AM to 3PM and from 4PM to midnight.

Video Lottery Gaming

On January 28, 2004, the New York Lottery commenced video lottery gaming operations with the opening of Saratoga Gaming & Raceway in Saratoga Springs. Since that date, the Lottery has opened 7 additional video gaming facilities across the state. As of March 31, 2009, these 8 facilities operate a statewide total of approximately 13,000 video lottery terminals.

Video lottery gaming is conducted 16 hours per day at each gaming facility utilizing a central determinant system that draws winners from a centralized finite prize pool, similar to the administration of an instant scratch off game. By statute, video lottery games must pay out a minimum of 90% in prizes.



Batavia Downs Casino is located in Batavia, New York. Owned and operated by Western Regional Off Track Betting Corporation, Batavia Downs Gaming opened on May 18, 2005, and currently operates 604 video gaming machines.



Fairgrounds Gaming & Raceway is located on the Fairgrounds in Hamburg, New York near Buffalo. Owned by the Erie County Agricultural Society and operated by Delaware North Inc, Fairgrounds Gaming & Raceway opened on March 17, 2004, and currently operates 959 video gaming machines.



Finger Lakes Gaming & Racetrack is located in Farmington, New York. Owned and operated by Delaware North Inc, Finger Lakes Gaming & Racetrack opened on Feb 18, 2004, and currently operates 1,198 video gaming machines.



Monticello Casino & Raceway is located in Monticello, New York. Owned and operated by Empire Resorts, Monticello Gaming & Raceway opened on June 30, 2004, and currently operates 1,587 video gaming machines.



Saratoga Gaming & Raceway is located in Saratoga Springs, New York. Owned and operated by Saratoga Harness Racing Inc, Saratoga Gaming & Raceway opened on January 28, 2004, and currently operates 1,770 video gaming machines.



Tioga Downs Casino is located in Nichols, New York. Owned and operated by American Racing & Entertainment LLC, Tioga Downs Gaming opened on July 4, 2006, and currently operates 766 video gaming machines.



Vernon Downs Casino is located in Vernon, New York. Owned and operated by American Racing & Entertainment LLC, Vernon Downs Gaming opened on October 26, 2006, and currently operates 761 video gaming machines.



Empire City Casino at Yonkers Raceway is located in Yonkers, New York. Owned and operated by Yonkers Racing Corp, Empire City opened on October 11, 2006, and currently operates 5,334 video gaming machines.

Economic Outlook

As a mature lottery, the New York State Lottery expects only incremental growth in most of the traditional lottery games. The potential for higher growth is in jackpot-driven games like Mega Millions, during intervals when jackpots roll to higher levels. In FY 2009-10, the Lottery expects incremental sales from the launch of Sweet Million, a new Lotto-type game with more winnable odds than the current Lotto game and multiple top prize payouts of \$1 million. The Lottery expects to see significant growth in video lottery gaming in the future. The Lottery currently operates eight video lottery gaming facilities but negotiations are currently under way to develop a ninth facility at Aqueduct Race Track. Having an additional facility in the middle of a large gaming population should provide a substantial increase to Lottery aid to education. As part of the Lottery's long-term financial planning, the Lottery routinely prepares sales projections and assists the New York State Division of the Budget in preparing Lottery revenue estimates to be used in the State's five-year financial plan.

Accomplishments

In the fiscal year ended March 31, 2009, New York Lottery revenues reached \$7.660 billion while net profit earned for aid to education reached \$2.544 billion. This revenue was a record-setting amount, not only for the New York Lottery but a North American revenue record as well.

Video Gaming revenue growth was particularly impressive. Net machine income increased by \$89.8 million, or 10.3 %, over the previous year. However, Video Gaming profit for education

was down by \$45 million due to legislative changes in the distribution of net win that took effect April 1, 2008 allocating higher distributions to the video gaming facility operators.

In addition to the amounts earned for education from Lottery games, the Lottery also provides Leaders of Tomorrow Scholarships to eligible high school students who demonstrate leadership skills and commitment to community service. Initiated in 2000, these scholarships now provide \$5,000 awarded in four annual \$1,250 installments which are available to one graduating senior from every high school in New York State. The Lottery is also a major sponsor of the Empire State Games in New York. The Empire State Games, patterned after the Olympics, is not only the first and largest of its kind in the nation, but is often considered to be among the most successful - setting the standard for multi-sport amateur athletic programs.

Future Projects

The Lottery has awarded a contract to GTECH Corporation for a Full Service Lottery Gaming System. In addition to providing draw and instant ticket sales capability, GTECH will be required to provide self-service points of sales and the retailer communications network. It is anticipated that a full conversion of the Lottery network will be completed during 2010.

During fiscal year 2009-10, the Lottery will continue an expansion of the retailer network with plans to add up to 250 new retailers by March, 2010. The expansion will include the addition of 2nd terminals at “best selling” retail locations. In addition, during the second half of the fiscal year, the Lottery plans to install approximately 3,000 Lottery-to-go terminals and approximately 500 Lotto-to-go terminals. These are self-service points of sale which sell instant and draw based games or just draw based games.

Game development in fiscal year 2009-10 will include the rollout of the Sweet Million game in September, 2009 and a continuing examination of new multi-jurisdictional gaming options. It is also anticipated that a gaming operator will be named for the Aqueduct Racetrack facility this fiscal year. This should generate upfront licensing fees in fiscal year 2010-11 and additional video game revenues in subsequent fiscal years once construction of the gaming facility is complete.

Financial Information

Internal Controls

Lottery management is responsible for designing and maintaining a system of internal controls to safeguard assets and ensure accurate financial information. All managers conduct annual internal control reviews within their units. During these reviews, controls are documented, evaluated, and tested. The Lottery’s Internal Audit Unit regularly reviews and evaluates all

activities of the Lottery from an internal control perspective and issues reports to management recommending improvements to the system of internal controls as necessary.

Beyond these internal reviews, the Lottery's financial statements are audited on an annual basis by a certified public accounting firm. As a state agency, the Lottery is also subject to periodic audits by the Office of the State Comptroller.

Budgetary Controls

New York State law limits administrative expenditures on Lottery operations to 15% of traditional lottery game sales and 10% of video lottery gaming net win. In addition, the legislature sets appropriation limits in the annual state budget which establish maximum amounts that can be spent on administrative costs other than sales-based agent commissions and vendor fees. Payment of expenditures is made through the Office of the State Comptroller which verifies compliance with budgetary appropriations. Historically the New York Lottery has efficiently controlled spending well below its statutory limit, allowing for unused administration funds to be transferred to the education account as surplus. For the year ended March 31, 2009, administrative surplus amounted to \$382.6 million.

Debt Administration

The Lottery's long-term liabilities consist primarily of installment payments due to winners of lottery jackpots. This debt is funded by United States government securities whose maturities are timed to correspond with payments due to prize winners. As of March 31, 2009, the accrued value of the Lottery's installment prizes payable was \$1.421 billion, with \$184.7 million payable within one year and \$1.236 billion classified as long-term.

Cash Management

Lottery deposits are made in accordance with New York State statutes. Lottery sales from traditional and video lottery games are allocated separately to accounts for education, administration, and prizes. Each of these accounts is under the joint custody of the State Comptroller and the Commissioner of Taxation and Finance. These funds are held as part of a short-term investment pool administered by the State Comptroller. In order to minimize uninvested funds, the Lottery also uses sole custody accounts for daily cash management.

Risk Management

On March 31, 2009, the Lottery maintained accounts receivable of \$480.2 million. The majority of this receivable is sales revenue due to be collected after the close of the fiscal year. To ensure these receivables are collected on a timely basis, payment terms have been minimized. Video

gaming receipts are collected two business days after the gaming day. Online game receipts are collected four days after the end of a sales week. Instant game receipts are collected within 45 days from the activation of a book of tickets. All collections are made by electronic transfer. In the event of default, all retailers and video lottery gaming facilities are bonded. Delinquent retailer debts are certified to the Civil Recoveries Bureau of the State Attorney General's office for collection.

Independent Audit

The New York State Lottery's annual financial statements are audited by a certified public accounting firm. The statements include pertinent footnotes and Management's Discussion and Analysis. The statements for the year ended March 31, 2009 were audited by KPMG LLP. The auditors report and the financial statements are included in the Financial Section of this report.

Certificate of Achievement

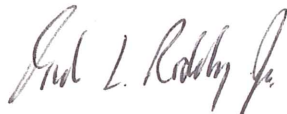
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the New York Lottery for its comprehensive annual financial report for the fiscal year ended March 31, 2008. In order to be awarded a Certificate of Achievement, a government entity must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The New York Lottery believes that our current comprehensive annual financial report continues to meet the requirements of the Certificate of Achievement Program, and is submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

This Comprehensive Annual Financial Report reflects our continued commitment to maintain the highest standards of public accountability and to maintain the public trust through accounting transparency. Preparation of this report could not have been accomplished without the efforts and dedication of the entire Financial Management Unit.

Respectfully submitted,



Frank L. Roddy Jr
Administrative Officer



Gardner S. Gurney
Deputy Director, Operations



Gordon Medenica
Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

New York Lottery

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
March 31, 2008

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in black ink, appearing to read "M. L. R. +".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

FINANCIAL SECTION



KPMG LLP
515 Broadway
Albany, NY 12207

Independent Auditors' Report

New York State Lottery:

We have audited the accompanying statements of net assets of the New York State Lottery (Lottery) as of March 31, 2009 and 2008, and the related statements of revenue, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Lottery's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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.

As discussed in note 1, the financial statements of the New York State Lottery are intended to present the financial position, and changes in financial position and cash flows, of only that portion of the financial reporting entity of the State of New York that is attributable to the transactions of the Lottery. They do not purport to, and do not, present fairly the financial position of the State of New York as of March 31, 2009 and 2008, the changes in financial position or its cash flows, where applicable, for the years then ended in conformity with U.S. or accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the New York State Lottery as of March 31, 2009 and 2008, and changes in net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis, listed in the accompanying table of contents, is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Lottery's basic financial statements. The introductory section and statistical section, listed in the accompanying table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

June 17, 2009

NEW YORK STATE LOTTERY

Management's Discussion and Analysis (Unaudited)

March 31, 2009 and 2008

The management of the New York State Lottery (New York Lottery or Lottery) offers readers the following general overview and analysis of the New York Lottery's financial position and activities for the fiscal year ending March 31, 2009 and 2008. We encourage readers to consider this information in conjunction with the detailed financial statements and explanatory notes that follow. The New York Lottery's basic financial statements for the fiscal years ending March 31, 2009 and 2008 have been prepared in accordance with U.S. generally accepted accounting principles.

Financial Highlights

- New York Lottery revenues totaled \$7.660 billion, the largest total ever for the Lottery, while net proceeds earned for Lottery Aid to Education reached \$2.544 billion for fiscal year 2009.
- New York Lottery revenues in fiscal year 2009 surpassed the revenues of 2008 by \$111.7 million or 1.5%. In fiscal year 2008, the annual revenue increase was \$373.4 million or 5.2%.
- Net proceeds earned for Lottery Aid to Education in fiscal year 2009 were less than the net proceeds of 2008 by \$12.2 million or .5%. Comparatively, the annual increase in earnings for education in fiscal year 2008 was \$196.5 million or 8.3% over the earnings of 2007.
- Prize expense increased by \$50.5 million or 1.3% during fiscal year 2009. Prize expense decreased by \$18.0 million or 0.5% during fiscal year 2008.
- Operating income decreased by \$79.4 million or 3.1% during fiscal year 2009. Operating income increased by \$267.9 million or 11.6% during fiscal year 2008.
- Nonoperating income decreased by \$12.0 million during fiscal year 2009. This decrease follows a \$38.6 million increase in fiscal year 2008. The decrease is the net result of a decrease in unrealized gains on investments and lower interest earnings on cash deposits in 2009 partially offset by a large bad debt expense in 2008.
- Working Capital (current assets minus current liabilities) decreased to \$135.8 million at the end of fiscal year 2009. This was a decrease of \$.4 million or .3% compared to fiscal year 2008. At the end of fiscal year 2008, working capital was \$136.2 million, a decrease of \$77.4 million or 36.2% over the fiscal year ended 2007.

Overview of Financial Statements

The New York Lottery presents its financial statements using the accrual basis of accounting, which is comparable to the method used by many private sector businesses. The accrual basis recognizes revenues when earned, not when received. Likewise, expenses are recognized when incurred, not when paid. The Lottery prepares the following three financial statements for fiscal years 2009 and 2008:

Statements of Net Assets

The statement on page nine provides information on the nature and amount of the Lottery's assets, liabilities and net assets at the close of fiscal years 2009 and 2008. The relationship of assets to liabilities and resulting net assets is one indicator of the financial condition of the Lottery and can also be a reflection of changes within the Lottery.

NEW YORK STATE LOTTERY

Management's Discussion and Analysis (Unaudited)

March 31, 2009 and 2008

Statements of Revenue, Expenses, and Changes in Net Assets

The statement on page 10 reflects the Lottery's operating and non-operating revenues and expenses and the change in net assets for the year.

Statements of Cash Flows

The comparative statement on page 11 is presented on the direct method of reporting and reflects cash flows from operating activities as well as capital and noncapital financing and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash and cash equivalents for the year.

The above mentioned financial statements, the notes and this management discussion and analysis provide information about the Lottery's overall financial condition.

This management discussion and analysis is meant to be an introduction to the financial statements and to assist readers in understanding the results of the operation and the financial condition of the New York Lottery. The notes to the financial statements are an integral part of the statements and include additional data and explanations which are to be used in concert with the financial statements.

The New York Lottery deposits its net proceeds into six accounts held in joint custody by the Commissioner of Taxation and Finance and the State Comptroller. These six accounts and the purpose of the funds are as follows:

- Lottery Education Account – Accumulates the required deposits for Aid to Education from revenues, not including video gaming revenues.
- Prize Pending Account – Consists of Lottery prizes that have not yet been paid from revenues, excluding video gaming revenues.
- Administration – Utilized to pay for the Lottery's administrative costs that are not related to or funded by video gaming revenues.
- Video Gaming Education – Accumulates the required deposits for Aid to Education from video gaming operations.
- Video Gaming Prize Pending – Consists of video gaming prizes awarded that have not yet been claimed.
- Video Gaming Administration – Utilized to pay the administrative costs of video gaming.

NEW YORK STATE LOTTERY

Management's Discussion and Analysis (Unaudited)

March 31, 2009 and 2008

Financial Analysis

Summary of Net Assets

The comparative summary of net assets represents the Lottery's financial position as of the fiscal years ended for 2009, 2008, and 2007 (in millions):

	FY 2009	FY 2008	FY 2007	FY 2009 vs. FY 2008		FY 2008 vs. FY 2007	
				Dollar change	Percent change	Dollar change	Percent change
Capital assets	\$ 7	11	16	(4)	(36.4)%	\$ (5)	(31.3)%
Other assets	2,098	2,081	2,129	17	0.8	(48)	(2.3)
Total assets	2,105	2,092	2,145	13	0.6	(53)	(2.5)
Current liabilities	586	637	805	(51)	(8.0)	(168)	(20.9)
Noncurrent liabilities	1,241	1,182	1,150	59	5.0	32	2.8
Total liabilities	1,827	1,819	1,955	8	0.4	(136)	(7.0)
Restricted net assets	72	110	104	(38)	(34.5)	6	5.8
Invested in capital assets, net	—	—	—	—	—	—	—
Unrestricted net assets	206	163	86	43	26.4	77	89.5
Total net assets	\$ 278	273	190	5	1.8	\$ 83	43.7

Capital Assets

Capital assets consist of equipment and leasehold improvements. During fiscal year 2009 and 2008, there were no significant changes in capital assets. Activity was primarily limited to yearly depreciation.

Other Assets

Other assets consist of cash and cash equivalents, accounts receivable, instant ticket inventory, and investments held in United States guaranteed marketable securities. During fiscal year 2009, other assets increased by \$17.4 million which represented a change of .8% from the previous year. This was in contrast to fiscal year 2008 when other assets decreased by \$48.4 million, or 2.3%, largely due to lower cash balances partially offset by an increase in investments.

Current Liabilities

Current liabilities consist of the current portion of long-term prizes payable, prizes awarded in the past year that remain unclaimed, amounts due to education, accrued expenses, accounts payable, the value of Lottery tickets purchased in advance of game drawings (deferred ticket sales), and the short-term portion of capitalized leases and amounts due to employees for unused vacation leave. In 2007, current liabilities also included a loan due to the New York Racing Association (NYRA). In total, these accounts decreased by \$50.3 million during fiscal year 2009 due in large part to payment of a \$32.8 million Lotto jackpot that had been outstanding at the close of the prior year. These changes can be compared to the fiscal year ended March 31, 2008 when there was a larger (\$167.9 million) annual decrease in total current liabilities largely due to changes in the amounts owed to education.

NEW YORK STATE LOTTERY

Management's Discussion and Analysis (Unaudited)

March 31, 2009 and 2008

Noncurrent Liabilities

Noncurrent liabilities consist of amounts due to be paid more than one year after the close of the fiscal year for installment prizes, unused employee vacation leave, and capitalized leases. During fiscal year 2009 and 2008, this category of liabilities increased by \$59.1 million and \$31.5 million respectively, with the increases occurring primarily in long-term prizes payable. The increases were caused mainly by the steady addition each year of new instant game top prize winners to be paid over an extended period of time and in some cases for the rest of their lives.

Net Assets

Unrestricted net assets listed on the statement of net assets are largely the cumulative result of increased fair market value of United States guaranteed marketable securities held by the Lottery to pay prize winners on an annuity basis. The New York Lottery's policy and practice is to hold these investments to maturity to meet the prize payment obligations. As such, the Lottery does not expect to realize any fair value gain on these investments. Investments consist of United States Government-backed obligations of zero coupon bonds and stripped securities that equal the face amount of the bond or security upon maturity.

Net assets invested in capital assets are the amounts recorded as capital assets less the amounts of related debt. During fiscal years 2009, 2008, and 2007, capital assets were \$6.8 million, \$11.3 million, and \$15.9 million respectively, while related debt was \$6.9 million, \$11.4 million, and \$16.0 million.

Restricted net assets for future prizes consist of prize funds that are in excess of prizes actually claimed at the fiscal year end, but which are necessary to ensure future prize payments. For example, prize funds from past sales are utilized to pay an accumulating or future New York Lotto or Mega Millions jackpot or contribute toward a created but unclaimed instant ticket prize. These amounts are available by statute for this purpose.

NEW YORK STATE LOTTERY

Management's Discussion and Analysis (Unaudited)

March 31, 2009 and 2008

Summary of Revenue, Expenses, and Changes in Net Assets

The following summary compares the Lottery's operating revenues, expenses and changes in net assets for the fiscal years 2009, 2008 and 2007 (in millions).

	FY 2009	FY 2008	FY 2007	FY 2009 vs. FY 2008		FY 2008 vs. FY 2007	
				Dollar change	Percent change	Dollar change	Percent change
Operating revenue:							
Lottery revenue, net	\$ 7,660	7,548	7,175	112	1.5%	\$ 373	5.2%
Operating expenses:							
Direct expenses	(5,030)	(4,838)	(4,723)	(192)	4.0	(115)	2.4
Indirect expenses	(130)	(131)	(140)	1	(0.8)	9	(6.4)
Total operating expenses	(5,160)	(4,969)	(4,863)	(191)	3.8	(106)	2.2
Operating income	2,500	2,579	2,312	(79)	(3.1)	267	11.5
Nonoperating income (expenses)							
Nonoperating income	124	175	102	(51)	(29.1)	73	71.6
Nonoperating expenses	(76)	(115)	(81)	39	(33.9)	(34)	42.0
Total nonoperating income (expenses)	48	60	21	(12)	(20.0)	39	185.7
Income before required allocation	2,548	2,639	2,333	(91)	(3.4)	306	13.1
Required allocation – contribution for aid to education	(2,544)	(2,556)	(2,360)	12	(0.5)	(196)	8.3
Change in net assets	\$ 4	83	(27)	(79)	(95.2)	\$ 110	(407.4)

Revenues

The New York Lottery exists for the sole purpose of raising revenue to help support Aid to Education. The Lottery achieves its mission through the sale of Lottery tickets at approximately 16,000 licensed retail locations across the state. The Lottery also achieves its mission through video lottery at eight licensed video lottery gaming facilities located in Saratoga, Monticello, Farmington, Hamburg, Batavia, Tioga, Vernon, and Yonkers, New York.

During the fiscal year 2009, the Lottery achieved \$3.029 billion in on-line sales, \$3.666 billion in instant sales, and \$965.1 million in video lottery gaming net machine income for a total of \$7.660 billion, a 1.5% (\$111.7 million) increase over the previous fiscal year. This record year eclipses the record set the previous year when 2008 revenues reached \$7.548 billion, a \$373.4 million or 5.2% increase. Significant growth was reflected in video lottery during both fiscal years and in instant games during 2009.

NEW YORK STATE LOTTERY

Management's Discussion and Analysis (Unaudited)

March 31, 2009 and 2008

The following compares the Lottery's revenues by game and the percentage of total revenues by game for the fiscal years 2009, 2008, and 2007 (in millions).

Game	FY 2009		FY 2008		FY 2007	
	Revenue	Percent of total revenues	Revenue	Percent of total revenues	Revenue	Percent of total revenues
Mega Millions	\$ 467	6.1%	\$ 482	6.4%	\$ 455	6.3%
Lotto	178	2.3	208	2.8	217	3.0
Take 5	329	4.3	320	4.2	327	4.6
New York's Numbers	850	11.1	857	11.4	855	11.9
Win 4	740	9.7	718	9.5	702	9.8
Quick Draw	425	5.5	444	5.9	445	6.2
Pick 10	32	0.4	32	0.4	32	0.4
Promotion Raffle Game	8	0.1	18	0.2	26	0.4
Instant	3,666	47.9	3,594	47.6	3,593	50.1
Subtotal traditional lottery	6,695	87.4	6,673	88.4	6,652	92.7
Video Gaming, net *	965	12.6	875	11.6	523	7.3
Total revenues	\$ 7,660	100.0%	\$ 7,548	100.0%	\$ 7,175	100.0%

* Video Lottery revenue represents net machine income after awarding prizes. Video Lottery credits played and won were as follows:

	FY 2009	FY 2008	FY 2007
Credits played	\$ 11,664	10,683	6,461
Credits won	(10,699)	(9,808)	(5,938)
Net machine income	\$ 965	875	523

Direct Expenses

Direct expenses consist of prize expense for traditional Lottery games, commissions to Lottery retailers and video lottery gaming facilities, fees to gaming contractors, expenses of providing instant tickets to players, and telecommunications. The largest expenditure in this category is prize expense which made up roughly 80% of direct expenses during each of the three years being discussed. This expense increased by \$50.5 million to \$4.003 billion in fiscal year 2009. At the same time, traditional retailer commissions decreased by \$.1 million to \$400.7 million and gaming contractor fees increased by \$5.6 million to \$126.5 million. The largest year-to-year change in this category was in video lottery gaming commissions to facilities, which increased by \$130.9 million to \$438.7 million. This was a result of changes to the legislated allocation of net video revenue and accounted for the majority of the increase in this category.

During fiscal year 2008, prize expense decreased by \$18.0 million to \$3.953 billion, retailer commissions increased by \$2.4 million to \$400.8 million, and gaming contractor fees increased by \$20.3 million to \$120.9 million. As a result of increased video revenue, commissions to video lottery gaming facilities reached \$307.7 million, an increase of \$110.8 million, which is the majority of the increase in direct expenses.

NEW YORK STATE LOTTERY

Management's Discussion and Analysis (Unaudited)

March 31, 2009 and 2008

Other Operating Expenses

Other operating expenses include marketing, state agency charges, personal services, fringe benefits and other administrative costs. These costs were \$130.2 million during fiscal year 2009 which was relatively unchanged from \$130.7 million in the prior year. By contrast, fiscal year 2008 had experienced a decrease of \$9.7 million from the \$140.4 million for these costs in 2007. The decrease in 2008 was primarily due to the ending of state police security details which had been maintained at video lottery gaming facilities during the initial stages of the program.

Nonoperating Revenues (Expenses)

Nonoperating revenues and expenses consist of miscellaneous income plus the net growth or decline in the fair market value of the United States guaranteed marketable securities used to fund long-term prizes. Investment income (\$123.9 million in 2009, \$175.0 million in 2008, and \$102.3 million in 2007) consists of both the fair value adjustments of investments plus the normal growth of the value of Lottery investments as the securities move closer to maturity. The market driven, fair value adjustment is the primary factor in the fluctuation in this amount from year to year. Investment expense is a reflection of the Lottery expending the investment income to increase the valuation of the long-term prizes payable to winners. The annual fair value adjustment of investments (shown here as income) flows to the unrestricted net assets balance on the statement of net assets. This fair value adjustment is unrealized by the Lottery since it expects to hold investments to maturity.

Income Before Required Allocation and Change in Net Assets

The revenues and expenses for fiscal year 2009 resulted in income before required allocation totaling \$2.548 billion. This amount consists of a required allocation for Aid to Education of \$2.544 billion that transfers out as a contribution for Aid to Education and a \$4.2 million increase in net assets for the year. The \$4.2 million increase in net assets is a combination of a \$38.0 million decrease in net assets restricted for prizes, a \$.1 million increase in net assets invested in capital assets, and a \$42.1 million increase in unrestricted net assets. The revenues and expenses for fiscal year 2008 resulted in income before required allocation totaling \$2.639 billion. This amount consists of a required allocation for Aid to Education of \$2.556 billion that transfers out as a contribution for Aid to Education and an \$83.5 million increase in net assets for the year. The \$83.5 million increase in net assets is a combination of a \$6.2 million increase in net assets restricted for prizes and a \$77.3 million increase in unrestricted net assets.

Summary and Outlook

The revenues reported here include those from eight video lottery gaming facilities. This included the facilities at Tioga, Vernon, and Yonkers, NY which opened in fiscal year 2007 and were operational for their first full year during fiscal year 2008. One more facility is expected to open in Queens, NY, at the Aqueduct Racetrack but the date of its opening has yet to be determined.

Contacting New York Lottery's Financial Management of the New York State Lottery

This financial report is designed to provide the State of New York, the public and other interested parties with an overview of the financial results of the New York State Lottery and an explanation of the Lottery's financial condition. If you have any questions about this report or require additional information, email Questions@Lottery.state.ny.us or write to The New York Lottery Communications Office, One Broadway Center, P.O. Box 7500, Schenectady, NY 12301-7500.

NEW YORK STATE LOTTERY

Statements of Net Assets

March 31, 2009 and 2008

(In thousands)

Assets	2009	2008
Current assets:		
Cash and cash equivalents	\$ 43,947	105,361
Accounts receivable	480,213	472,367
Instant ticket inventory	12,430	9,989
Investments	185,859	185,429
Total current assets	<u>722,449</u>	<u>773,146</u>
Noncurrent assets:		
Long-term investments, net	1,375,670	1,307,544
Capital assets	6,818	11,257
Total noncurrent assets	<u>1,382,488</u>	<u>1,318,801</u>
Total assets	<u>2,104,937</u>	<u>2,091,947</u>
Liabilities		
Current liabilities:		
Prizes payable	\$ 184,703	189,792
Unclaimed prizes	189,248	223,978
Due to education	175,714	175,735
Accounts payable and accrued liabilities	20,718	27,004
Capital lease obligations	2,673	4,531
Deferred ticket sales	12,301	14,688
Compensated absences	1,283	1,216
Total current liabilities	<u>586,640</u>	<u>636,944</u>
Noncurrent liabilities:		
Compensated absences	305	291
Long-term capital lease obligations	4,222	6,895
Long-term prizes payable	1,236,198	1,174,483
Total noncurrent liabilities	<u>1,240,725</u>	<u>1,181,669</u>
Total liabilities	<u>1,827,365</u>	<u>1,818,613</u>
Net Assets		
Restricted for future prizes	72,026	110,008
Invested in capital assets, net of related debt	(77)	(169)
Unrestricted	205,623	163,495
Total net assets	<u>\$ 277,572</u>	<u>273,334</u>

See accompanying notes to basic financial statements.

NEW YORK STATE LOTTERY

Statements of Revenue, Expenses, and Changes in Net Assets

Years ended March 31, 2009 and 2008

(In thousands)

	2009	2008
Operating revenue:		
Lottery revenue, net	\$ 7,660,145	7,548,465
Operating expenses:		
Prize expense	(4,003,267)	(3,952,761)
Retailer commissions	(839,312)	(708,514)
Gaming contractor fees	(126,479)	(120,887)
Instant ticket direct expenses	(32,755)	(28,160)
Telecommunications	(28,109)	(28,013)
Total direct expenses	(5,029,922)	(4,838,335)
Online games/jackpot marketing	(39,758)	(41,812)
Personal service and fringe benefits	(31,227)	(28,606)
Instant games marketing	(27,676)	(25,277)
All games marketing	(13,513)	(14,667)
Other administrative costs	(11,678)	(12,189)
State agency charges	(1,710)	(3,461)
Depreciation	(4,599)	(4,654)
Total indirect expenses	(130,161)	(130,666)
Total operating expenses	(5,160,083)	(4,969,001)
Operating income	2,500,062	2,579,464
Nonoperating revenue (expenses):		
Investment income	123,909	175,035
Other expense, net	(271)	(40,104)
Investment expense, net	(75,512)	(74,804)
Total nonoperating revenue	48,126	60,127
Income before required allocation	2,548,188	2,639,591
Required allocation for aid to education	(2,543,950)	(2,556,135)
Change in net assets	4,238	83,456
Net assets beginning of year	273,334	189,878
Net assets end of year	\$ 277,572	273,334

See accompanying notes to basic financial statements.

NEW YORK STATE LOTTERY
 Statements of Cash Flows
 Years ended March 31, 2009 and 2008
 (In thousands)

	2009	2008
Operating activities:		
Cash received from net lottery revenue	\$ 7,650,432	7,530,109
Cash payments for prizes	(4,056,857)	(4,005,825)
Cash payments for commissions	(839,184)	(709,078)
Cash payments for contractor fees	(126,947)	(120,703)
Cash payments for telecommunications	(28,109)	(28,013)
Cash payments for instant ticket direct expenses	(36,426)	(27,425)
Cash payments for other operating expenses	(130,743)	(129,063)
Net cash provided by operating activities	2,432,166	2,510,002
Investing activities:		
Proceeds from investment maturities	189,451	185,498
Purchases of investments	(140,099)	(265,782)
Interest on cash and cash equivalents	4,318	22,508
Net proceeds from swaps of investment securities	1,683	—
Vender fee advance	—	(32,000)
Net cash provided (used) by investing activities	55,353	(89,776)
Noncapital financing activities:		
Cash transfer to State for Aid to Education	(2,954,095)	(2,787,034)
Cash received from State General Fund for Lottery Aid Guarantee	410,124	103,198
Other cash payments	(271)	(1,612)
Net cash used by noncapital financing activities	(2,544,242)	(2,685,448)
Capital financing activities:		
Cash payments for equipment and capital leases	(4,691)	(4,637)
Net cash used by capital financing activities	(4,691)	(4,637)
Net decrease in cash and cash equivalents	(61,414)	(269,859)
Cash and cash equivalents, beginning of year	105,361	375,220
Cash and cash equivalents, end of year	\$ 43,947	105,361
Reconciliation of operating income to cash provided by operating activities:		
Operating income	\$ 2,500,062	2,579,464
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	4,599	4,654
Change in operating assets and liabilities:		
(Increase) in accounts receivable, net	(7,846)	(20,273)
(Increase) decrease in ticket inventory	(2,441)	2,130
(Decrease) in prizes payable	(18,886)	(47,637)
(Decrease) in unclaimed prizes	(34,730)	(6,037)
Increase in compensated absences	81	56
Decrease in accounts payable and accrued liabilities	(6,286)	(7,792)
(Decrease) increase in deferred ticket sales	(2,387)	5,437
Net cash provided by operating activities	\$ 2,432,166	2,510,002
Noncash investing activities:		
Increase in unrealized gains on investments	\$ 42,220	77,263
Amortization of investment discount	75,688	75,007

See accompanying notes to basic financial statements.

NEW YORK STATE LOTTERY

Notes to Basic Financial Statements

March 31, 2009 and 2008

(1) Summary of Significant Accounting Policies

The New York State Lottery (Lottery) was established in 1967. The Lottery is currently administered by the Division of the Lottery, an independent unit of the New York State Department of Taxation and Finance, which 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 in the State of New York's Basic Financial Statements as an enterprise fund. These financial statements present only the Lottery and do not present the financial position of the State nor changes in the State's financial position and cash flows.

The Lottery prepares its financial statements under the economic resources measurement focus whereby all inflows, outflows and balances affecting net assets are reported, and uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. The primary operating revenue of the Lottery is ticket sales from games. Nonoperating income consists mostly of investment income and unrealized gains on investments. Operating expenses consist of direct expenses for prizes, commissions to Lottery retailers, fees to gaming contractors, expenses for providing instant tickets to players, and telecommunications. Other operating expenses that are indirect to the results of each game include marketing, state agency charges, personal services, and fringe benefits. Nonoperating expense includes the amortization of the discount on long-term prizes payable. The Lottery applies all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Statements and Interpretations of the Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB's) of the Committee on Accounting Procedure. The Lottery has elected the option, under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that Use Proprietary Funds*, not to apply all FASB Statements and Interpretations issued after November 30, 1989.

The more significant accounting policies of the Lottery are described below:

(a) Revenue Recognition

(i) Draw Games

Revenue from ticket sales for Lotto, Quick Draw, Take 5, Pick 10, Mega Millions, New York's Numbers and Win-4 games, and promotional games (draw games) is recognized when the related drawing takes place. Receipts from subscription sales and other ticket sales for future drawings are recorded as deferred revenue and recognized when the related drawings take place.

(ii) Instant Games

Revenue from Instant Games is recognized based on the dollar value of the total number of tickets available for sale. Tickets are available for sale upon being activated on the Lottery Validation System at the retailer locations.

NEW YORK STATE LOTTERY

Notes to Basic Financial Statements

March 31, 2009 and 2008

(iii) Video Lottery

Revenue from video lottery gaming is recognized based on net machine income, which is defined as amounts played less prizes won.

(b) Commissions and Fees

Retailers selling draw and Instant Game tickets receive a commission of 6% based on the total tickets sold. For video lottery, video gaming facilities receive a varying percent of incremental annual net machine income according to provisions of Section 1612 of the Tax Law. The particular percent applied to a range of net machine income can vary depending on the facility's number of video gaming machines, geographical area of the state, population level, or proximity to Native American gaming facilities. The draw game contractor and the video lottery central processing contractor receive fees equal to a contractual percentage of the sales generated through the network maintained by the respective contractor. The instant game contractor is paid a fee equal to a contractual percentage of instant sales. Video lottery terminal contractors receive a fee equal to a contractual percentage of revenue, adjusted for the units of service provided. All other gaming contractors are paid fees based on the units of service provided (see note 13).

(c) Accounts Receivable

Accounts receivable represents amounts due from retailers through a Lottery gaming contractor and video lottery gaming facilities, net of commissions and fees, as well as amounts due from agents for Instant Game tickets which have been activated, but not yet settled. Instant ticket settlements occur within 45 days after a book of tickets is activated. Video lottery gaming receivables are received two business days after each sales day and draw games are collected within four business days after the close of each sales week.

(d) 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 for educational purposes to be at least 20% for the New York State Lottery Instant Games, 35% for Take 5, New York's Numbers, Win-4, Mega Millions and Pick 10, 45% for Lotto and promotional games, and 25% for Quick Draw. In addition, the Lottery has legislative authority to issue up to three Instant Games per year with at least 10% for educational purposes. For video lottery, the required allocation to education is a varying percent of each facility's annual incremental net machine income, depending on factors such as the facility's number of video gaming machines, geographical area of the state, population level, and proximity to Native American gaming facilities.
- Allocations of ticket sales revenue for the payment of lottery prizes are not to exceed 65% for the New York State Lottery Instant Games, 50% for Take 5, New York's Numbers, Win-4, Mega Millions, and Pick 10, 40% for Lotto and promotional games, and 60% for Quick Draw. In addition, the Lottery has legislative authority to issue up to three Instant Games per year with up to 75% allocated to prizes. Video lottery is required to pay prizes that average no less than 90% of gross sales.

NEW YORK STATE LOTTERY

Notes to Basic Financial Statements

March 31, 2009 and 2008

- Allocations of ticket sales revenue from all traditional games for the payment of Lottery administrative expenses (including agent commissions and contractor fees) are not to exceed 15%. For video lottery, 10% of net revenue (the total revenue wagered after payout for prizes) is allocated for Lottery Administration. Unlike traditional games, video lottery administrative expenses do not include commissions and fees which are described separately in note 1b. Any excess of the maximum allocation over actual administrative expenses is allocated to education. Such allocations amounted to approximately \$382,605,000 and \$379,989,000 for fiscal years 2009 and 2008, respectively. Administrative expenses incurred by the Lottery represent telecommunications, advertising, salary and other operating costs.

(e) Cash and 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 Commissioner of Taxation and Finance and the Comptroller of the State of New York through the Short-Term Investment Pool, which have a maturity of one year or less when purchased, which is used for the temporary investment of funds not required for immediate payments.

(f) Investments

Investments, consisting of U.S. Government-backed obligations (zero coupon bonds and stripped Government securities), are carried at fair value. Investment income represents accretion of bond discount, interest on deposits, and the change in fair value of investments.

(g) Inventory

Instant Game tickets are purchased from printing vendors. Tickets not activated for sale are held in inventory and are valued at cost by game. Tickets are charged to instant ticket direct expense under the first-in, first-out (FIFO) accounting method when activated for sale by the lottery retailers. At the conclusion of an Instant Game, unused inventory is charged to instant ticket direct expense.

NEW YORK STATE LOTTERY

Notes to Basic Financial Statements

March 31, 2009 and 2008

(h) Capital Assets

Capital assets consist of equipment and leasehold improvements which are carried at historical cost. Equipment is capitalized when it has cost in excess of \$40,000 and a useful life of two years or more. Leasehold improvements are capitalized when they have a cost of \$100,000 or more. Depreciation of equipment is computed using the straight-line method over five years, the estimated useful lives of the assets. 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. Changes in capital assets and related accumulated depreciation are shown below, by major class of asset, for the years ended March 31, 2009 and 2008 (in thousands).

	<u>2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>2009</u>
Leasehold improvements:							
Cost	\$ 4,526	—	—	4,526	—	—	4,526
Accumulated depreciation	(4,526)	—	—	(4,526)	—	—	(4,526)
Net value	—	—	—	—	—	—	—
Equipment:							
Cost	25,800	58	—	25,858	160	—	26,018
Accumulated depreciation	(9,947)	(4,654)	—	(14,601)	(4,599)	—	(19,200)
Net value	15,853	(4,596)	—	11,257	(4,439)	—	6,818
Total	<u>\$ 15,853</u>	<u>(4,596)</u>	<u>—</u>	<u>11,257</u>	<u>(4,439)</u>	<u>—</u>	<u>6,818</u>

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 other revenues, net in the period of disposal.

(i) Prizes Payable

Lotto and Mega Millions jackpot players have the option at the time of ticket purchase of selecting a lump sum payment in lieu of long-term annuity payments. Some Instant Games also have jackpot prizes that are long-term annuity payments. 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 amortization of the long-term annuity payment discount is recorded as investment expense in these financial statements. Any excess of investment maturities over related annuity prize payments are recorded in restricted net assets and made available for future prizes.

(j) Unclaimed Prizes

Unclaimed prizes at March 31, 2009 and 2008 were \$189,248,000 and \$223,978,000, respectively. Prizes unclaimed for one year after the drawing date (lapsed) are forfeited by the ticket holder. Total prizes lapsed amounted to approximately \$41,727,000 and \$62,966,000 for fiscal years 2009 and 2008, respectively. These forfeited prizes are netted against prize expense in the statement of Revenues, Expenses, and Changes in Net Assets.

NEW YORK STATE LOTTERY

Notes to Basic Financial Statements

March 31, 2009 and 2008

Under the State Tax Law, the Lottery retains forfeited prizes for supplemental prizes in subsequent lottery games. During the fiscal years 2009 and 2008, these supplemental prizes were used for Lotto, Quick Draw, Take 5, promotional games, and various Instant Games.

(k) *Restricted Net Assets*

Restricted net assets for prizes includes forfeited prizes and other prize assets that are restricted under State Tax Law Sections 1612 and 1614 for the purpose of meeting future prize expense.

(l) *Reclassification*

Certain amounts in the 2008 financial statements have been reclassified to conform to the 2009 presentation.

(m) *Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and related notes. Actual results could differ from those estimates.

(n) *Adoption of New Accounting Standard*

As disclosed in note 10, effective April 1, 2007, the Lottery adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The adoption did not have an effect on the Lottery's net assets.

(2) *Cash and Cash Equivalents*

Lottery deposits of cash and cash equivalents are made in accordance with State Finance Law Sections 92c and 98a and State Tax Law Sections 1611 and 1612. Lottery sales receipts are allocated and deposited in separate fund accounts for prizes, education, and administration under the joint custody of the Commissioner of Taxation and Finance and the Comptroller of the State of New York. Per Section 98a of the State Finance Law, the accounts for prizes and administration earn interest through participation in a short-term investment pool administered by the Office of the State Comptroller of the State of New York. The prize account interest is used for future lottery prizes. The carrying amount of the accounts included in cash and cash equivalents were \$48,696,000 and \$108,267,000 at March 31, 2009 and 2008, respectively. The carrying value of cash equivalents approximates market value.

The Lottery also maintains sole custody accounts which are used for daily cash management purposes. The Lottery manages the investment of its cash balances to minimize its uninvested funds. At March 31, 2009 and 2008, the amount of accounts included in cash and cash equivalents related to the sole custody accounts were \$(4,749,000) and \$(2,906,000), respectively.

The Lottery's deposits are collateralized under a program administered by the Office of the State Comptroller of the State of New York. To manage custodial credit risk, 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

NEW YORK STATE LOTTERY

Notes to Basic Financial Statements

March 31, 2009 and 2008

were fully collateralized at fiscal year-end. The Lottery manages custodial credit risk by using several financial institutions and by minimizing balances in the sole custody accounts.

(3) Investments

The Lottery is authorized by State statute to invest in U.S. Government-backed obligations, which will provide for the payment of prizes payable (see note 4). The fair value of these investments at March 31, 2009 and 2008 was \$1,561,529,000 and \$1,492,973,000, respectively. During fiscal years 2009 and 2008, approximately \$75,688,000 and \$75,007,000, respectively, of amortized discount was included in investment income.

The amortized costs of these investments consisted of the following at March 31 (in thousands):

	2009	2008
Maturity value	\$ 2,088,715	2,046,520
Unamortized discount	(732,732)	(716,874)
Total at amortized cost	1,355,983	1,329,646
Less investments, maturing within one year, at amortized cost	177,508	180,833
Long-term investments, at amortized cost	\$ 1,178,475	1,148,813

Maturities of the investments in each of the five fiscal years following March 31, 2009, and five year incremental totals thereafter, are as follows (in thousands):

2010	\$ 183,141
2011	165,315
2012	149,481
2013	135,343
2014	124,190
2015 – 2019	450,778
2020 – 2024	400,497
2025 – 2029	252,833
2030 – 2034	91,704
2035 – 2039	135,433
	\$ 2,088,715

The Lottery periodically enters into certain transactions whereby government securities are exchanged, through sales and purchases, for other government securities with substantially identical terms and characteristics. During fiscal year 2009, the face value of the securities swapped amounted to \$51,481,000 resulting in gains of approximately \$1,683,000. The gains were included in investment income in the statements of revenue, expenses, and changes in net assets. During 2008, no such transactions took place.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to perform on a transaction, the Lottery will not be able to recover the value of investment securities that are

NEW YORK STATE LOTTERY

Notes to Basic Financial Statements

March 31, 2009 and 2008

in the possession of an outside party. In order to manage this risk, all of the Lottery's investments are insured or registered securities held by the Lottery or its agent in the Lottery's name.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Lottery's policy for managing this risk is to hold investment securities to maturity, at which time the fair value of the investment is equal to its stated maturity value.

(4) Prizes Payable

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

	<u>2009</u>	<u>2008</u>
Total obligation	\$ 2,153,007	2,080,347
Unamortized discount	<u>(732,106)</u>	<u>(716,072)</u>
Total carrying amount	1,420,901	1,364,275
Less prizes payable within one year	<u>184,703</u>	<u>189,792</u>
Long-term prizes payable	<u>\$ 1,236,198</u>	<u>1,174,483</u>

The amortized discount on the prizes payable is based on interest rates which range from .27% to 9.41% and reflect the interest rates earned by the investments held to fund the related liabilities. The amortization of discount is recorded as investment expense in the statements of revenues, expenses, and changes in net assets and amounted to \$75,512,000 and \$74,804,000 for fiscal years 2009 and 2008, respectively.

The aggregate amount of prizes payable due in each of the five fiscal years following March 31, 2009, and the five year incremental totals thereafter, is as follows (in thousands):

2010	\$ 185,126
2011	169,543
2012	151,790
2013	139,223
2014	126,405
2015 – 2019	452,419
2020 – 2024	365,230
2025 – 2029	133,638
2030 – 2034	14,797
Thereafter	<u>414,836</u>
	<u>\$ 2,153,007</u>

NEW YORK STATE LOTTERY

Notes to Basic Financial Statements

March 31, 2009 and 2008

(5) Long-Term Liabilities

The Lottery's long-term liabilities, as of March 31, 2009 and 2008 are comprised of the following, (in thousands):

	<u>Balance at</u> <u>March 31, 2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at</u> <u>March 31, 2009</u>	<u>Current</u> <u>portion</u>
Capital lease obligations (note 12) \$	11,426	—	(4,531)	6,895	2,673
Compensated absences (note 11)	1,507	1,299	(1,218)	1,588	1,283
Prizes payable (note 4)	1,364,275	249,300	(192,674)	1,420,901	184,703
	<u>Balance at</u> <u>March 31, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at</u> <u>March 31, 2008</u>	<u>Current</u> <u>portion</u>
Capital lease obligations (note 12) \$	16,005	—	(4,579)	11,426	4,531
Compensated absences (note 11)	1,451	1,227	(1,171)	1,507	1,216
Prizes payable (note 4)	1,337,108	224,360	(197,193)	1,364,275	189,792

(6) Aid to Education

The required allocation and contribution transferred out for aid to education during the fiscal years ended March 31, 2009 and 2008, are as follows (in thousands):

	<u>2009</u>	<u>2008</u>
Cash transferred to education	\$ 2,954,095	2,787,034
Amount received from the State General Fund for Lottery Aid Guarantee	<u>(410,124)</u>	<u>(103,198)</u>
Net cash transferred to education	2,543,971	2,683,836
Prior year payable	(175,735)	(303,436)
Current year payable	<u>175,714</u>	<u>175,735</u>
Required allocation to education	\$ <u><u>2,543,950</u></u>	<u><u>2,556,135</u></u>

(7) Pension Benefits

Substantially all employees of the Lottery are members of the State and Local Employees' Retirement System (ERS) and the Public Employees' Group Life Insurance Plan (GLIP). The two programs are part of the State and Local Retirement System (System) which is a cost-sharing, multiple employer public employee retirement system. The Comptroller of the State of New York is sole trustee and administrative head of the System. The System issues a publicly available financial report that includes financial statements and required supplementary information which may be obtained by writing to New York State and Local Employees' Retirement Systems, 110 State Street, Albany, New York 12236.

The System provides retirement benefits as well as death and disability benefits. All benefits vest after five years of accredited service. Retirement benefits are established by the New York State Retirement and Social Security Law. Retirement benefits and contributory requirements depend upon the point in time at

NEW YORK STATE LOTTERY

Notes to Basic Financial Statements

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which an employee last joined the System. Most members of the System who joined before July 27, 1976 are enrolled in a noncontributory plan; the Lottery contributes the entire amount determined to be payable to the System. Personnel who joined the System after July 27, 1976 are required by law to contribute 3% of their gross salary for their first ten years of employment; the Lottery withholds and contributes the balance payable to the System for these employees.

The Lottery paid to the Office of the State Comptroller of the State of New York \$2,112,000 for 2009, \$1,996,000 for 2008, and \$2,034,000 for 2007, to cover required employer contributions for retirement benefits and equaled 100% of the required contribution in each of the respective years. These payments made represent 10.50%, 10.84%, and 11.65%, of covered payroll for each of the years, respectively.

(8) Operating Income

Composition of operating income for fiscal 2009 and 2008 by type of lottery game is as follows (in thousands):

	2009					Net
	Expenses					
	Revenue	Prizes**	Commissions	Fees	Instant direct expense	
Mega Millions	\$ 467,141	(227,948)	(27,835)	(5,961)	—	205,397
Lotto	178,075	(79,624)	(9,824)	(2,098)	—	86,529
Take 5	328,431	(163,080)	(19,706)	(4,220)	—	141,425
Pick 10	32,033	(15,290)	(1,922)	(412)	—	14,409
New York Numbers	850,331	(402,293)	(51,020)	(10,927)	—	386,091
Win 4	740,163	(388,478)	(44,410)	(9,511)	—	297,764
Promotion Raffle Game	8,388	(8,132)	(503)	(108)	—	(355)
Instants	3,666,087	(2,459,439)	(219,974)	(27,386)	(32,755)	926,533
Quick Draw	424,422	(259,496)	(25,465)	(5,454)	—	134,007
Total traditional lottery	6,695,071	(4,003,780)	(400,659)	(66,077)	(32,755)	2,191,800
Video lottery	965,074*	513	(438,653)	(60,402)	—	466,532
	<u>\$ 7,660,145</u>	<u>(4,003,267)</u>	<u>(839,312)</u>	<u>(126,479)</u>	<u>(32,755)</u>	2,658,332
Telecommunications						(28,109)
Other operating expenses						(130,161)
Total operating income						<u>\$ 2,500,062</u>

* Video Lottery revenue represents net machine income after awarding prizes. Video Lottery credits played and won were as follows:

Credits played	\$ 11,663,674
Credits won	<u>(10,698,600)</u>
Net machine income	<u>\$ 965,074</u>

** Prizes unclaimed after one year are forfeited and are netted against prizes.

NEW YORK STATE LOTTERY

Notes to Basic Financial Statements

March 31, 2009 and 2008

	2008					
	Expenses					Net
	Revenue	Prizes**	Commissions	Fees	Instant direct expense	
Mega Millions	\$ 481,636	(222,056)	(28,899)	(6,189)	—	224,492
Lotto	208,400	(94,741)	(11,657)	(2,489)	—	99,513
Take 5	319,809	(159,942)	(19,190)	(4,110)	—	136,567
Pick 10	32,220	(16,786)	(1,933)	(414)	—	13,087
New York Numbers	856,539	(427,860)	(51,390)	(11,006)	—	366,283
Win 4	718,522	(344,201)	(43,109)	(9,232)	—	321,980
Promotion Raffle Game	17,797	(16,475)	(1,128)	(229)	—	(35)
Instants	3,594,005	(2,398,636)	(216,830)	(26,809)	(28,160)	923,570
Quick Draw	444,256	(272,241)	(26,655)	(5,709)	—	139,651
Total traditional lottery	6,673,184	(3,952,938)	(400,791)	(66,187)	(28,160)	2,225,108
Video lottery	875,281*	177	(307,723)	(54,700)	—	513,035
	\$ 7,548,465	(3,952,761)	(708,514)	(120,887)	(28,160)	2,738,143
Telecommunications						(28,013)
Other operating expenses						(130,666)
Total operating income						\$ 2,579,464

* Video Lottery revenue represents net machine income after awarding prizes. Video Lottery credits played and won were as follows:

Credits played	\$ 10,683,021
Credits won	<u>(9,807,740)</u>
Net machine income	\$ <u>875,281</u>

** Prizes unclaimed after one year are forfeited and are netted against prizes.

(9) Deferred Compensation

The 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 are placed in trust for the participants and their beneficiaries.

(10) Postretirement Benefits

As a New York State (State) agency, the Lottery participates in the New York State Health Insurance Program (NYSHIP), which is administered by the State as an agent multiple employer defined benefit plan. Under the plan the State provides certain healthcare for eligible retired employees and their dependents under an employer noncontributory healthcare plan. The State's Plan states that employees and/or their dependents become eligible for these benefits at 55 years of age when the employee has 10 years of State service. In calculating the 10 year service requirement, all of the employee's service need not be with the State, but may be a composite of other government service elsewhere, with a minimum of 3 years with New York State. Employees with no prior State service must work a minimum of 10 years before they and

NEW YORK STATE LOTTERY

Notes to Basic Financial Statements

March 31, 2009 and 2008

their dependents are eligible for the retirement medical benefits. Generally retirees contribute 10% of the cost of single coverage and 25% of the cost of dependent coverage for health insurance benefits. The State generally covers 100% of the cost of single and dependent coverage for employees retired prior to January 1, 1983. NYSHIP does not issue a stand-alone financial report and NYSHIP's agent activities are included within the financial statements of the State.

During the fiscal year ended March 31, 2009, NYSHIP provided health insurance coverage through the Empire Plan, an indemnity health insurance plan with managed care components; 12 Health Maintenance Organizations (HMOs); and through the Student Employee Health Plan (SEHP). Generally, these include hospital, medical, mental health and substance abuse benefits, and prescription drug benefits

The Lottery's policy regarding retiree healthcare benefits is to pay the amounts billed through the State's fringe benefit rate on a pay-as-you-go basis. The Lottery has no obligation beyond the payment of the State's fringe benefit rate for retiree healthcare benefits. The State's policy is that the State is responsible for recording the annual required contribution and the actuarial accrued liability under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* for the Lottery's retiree health care benefits in the State's governmental-wide financial statements.

The Lottery at March 31, 2009 had approximately 120 retired and/or spouses of retired employees receiving these benefits with an annual pay-as-you-go cost of approximately \$800,000.

(11) Employees' Compensated Absences

Under the terms of the Lottery's personnel policies and its union agreements, vacation pay benefits may be paid upon termination up to a maximum of 225 hours. The Lottery recognizes employees' compensated absence benefits when earned. The liability for employees' compensated absences was approximately \$1,588,000 and \$1,507,000 as of March 31, 2009 and 2008, respectively, and is recorded as a liability in the statements of net assets.

(12) Leases

The Lottery leases surveillance equipment at its video lottery gaming facilities under capital leases with various companies. Amounts for capital leases, which are included in capital assets on the statements of net assets, were approximately \$22,672,000 at March 31, 2009 and 2008. Accumulated depreciation on these capital assets was approximately \$16,170,000 and \$11,708,000 at March 31, 2009 and 2008, respectively.

The Lottery has entered into operating leases for equipment and building space. Rental expense was approximately \$2,388,000 and \$2,173,000 in 2009 and 2008, respectively.

NEW YORK STATE LOTTERY

Notes to Basic Financial Statements

March 31, 2009 and 2008

Future minimum lease payments under all noncancelable leases having initial or remaining terms in excess of one year as of March 31, 2009 are as follows (in thousands):

	<u>Operating leases</u>	<u>Capital leases</u>
2010	\$ 2,213	2,725
2011	1,864	2,377
2012	1,628	2,149
2013	1,474	—
2014	1,195	—
2015 and thereafter	<u>3,328</u>	<u>—</u>
Total minimum payments required	\$ <u>11,702</u>	7,251
Less amounts representing interest		<u>356</u>
Present value of minimum lease payments		6,895
Less current portion		<u>2,673</u>
Long-term capital lease obligations		\$ <u>4,222</u>

(13) Commitments and Contingencies

(a) Contractual Arrangements

The Lottery maintains a gaming network of approximately 16,000 on-line locations where all traditional lottery games are sold. GTECH Holdings Corporation (GTECH) is responsible for operating all traditional Lottery games under a contract expiring on February 28, 2010.

Instant Game sales are also supported by services provided under additional contracts:

- (1) Under a contract that expires July 23, 2009 Scientific Games, Inc. is the primary supplier of Instant Game tickets.
- (2) Under a contract expiring July 30, 2009 Pollard Banknote Limited is the secondary supplier of Instant Game tickets.
- (3) Under contracts that expire on July 27, 2009 Oberthur Gaming Technologies and Gtech Printing Corporation are tertiary suppliers of Instant Game tickets.
- (4) Instant Game tickets are also sold through approximately 4,000 vending machines at approximately 3,000 locations. A contract with Gtech which expires on April 30, 2009, provides for maintenance of the vending machines.

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Notes to Basic Financial Statements

March 31, 2009 and 2008

Video lottery games are offered on approximately 13,000 video gaming machines spread over eight video lottery gaming facilities. Multimedia Games, Inc. provides a central processing system for the operation of video lottery games under a contract expiring on January 27, 2010. Video lottery gaming machines are provided under contracts expiring December 31, 2010 with three different companies (Bally Gaming, International Game Technology, and Spielo USA, Inc.).

In March 2009, the Lottery awarded a seven year contract through February 28, 2017 to Gtech Corporation for a gaming network and vending machines including related communication services. The Lottery and Gtech Corporation expects necessary approvals of the contract by the New York State Attorney General and the New York State Office of the State Comptroller. A completed new gaming system will be operational under this contract in 2010.

On June 1, 2009 an extension of the Multimedia Games, Inc. contract for the video gaming system was approved by the New York State Office of the State Comptroller. The new expiration date is December 31, 2017.

(b) *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.

**STATISTICAL SECTION
(UNAUDITED)**

Statistical Section Overview

This part of the New York Lottery's Comprehensive Annual Financial Report presents detailed statistical data to provide context for understanding the information covered in the preceding sections of the report. The data is intended to give greater insight into the following five general categories of information.

Financial trends

These schedules allow the reader to compare and contrast the Lottery's activities and results over time.

Revenue capacity

These schedules allow the reader to compare the various games that are the source of the Lottery's revenue.

Debt capacity

This schedule shows the various types of Lottery debt and the means of providing for payment of the major source of debt.

Demographic and economic information

These schedules should allow the reader to see the demographic and economic environment in which the Lottery operates.

Operating information

These schedules attempt to show the reader the relationship between the revenue earned by the Lottery and the resources required to produce it.

New York Lottery
 Net Assets
 Fiscal Years 2002 through 2009
 (in thousands)

	2002	2003	2004	2005	2006	2007	2008	2009
Net Assets								
Invested in capital assets	\$ 7,292	\$ 7,157	\$ 11,687	\$ 20,534	\$ 8,635	\$ (152)	\$ (169)	\$ (77)
Restricted for future prizes	80,235	91,474	141,935	150,905	130,129	103,815	110,008	72,026
Unrestricted	115,496	234,674	211,106	118,222	77,657	86,215	163,495	205,623
Total	<u>\$ 203,023</u>	<u>\$ 333,305</u>	<u>\$ 364,728</u>	<u>\$ 289,661</u>	<u>\$ 216,421</u>	<u>\$ 189,878</u>	<u>\$ 273,334</u>	<u>\$ 277,572</u>

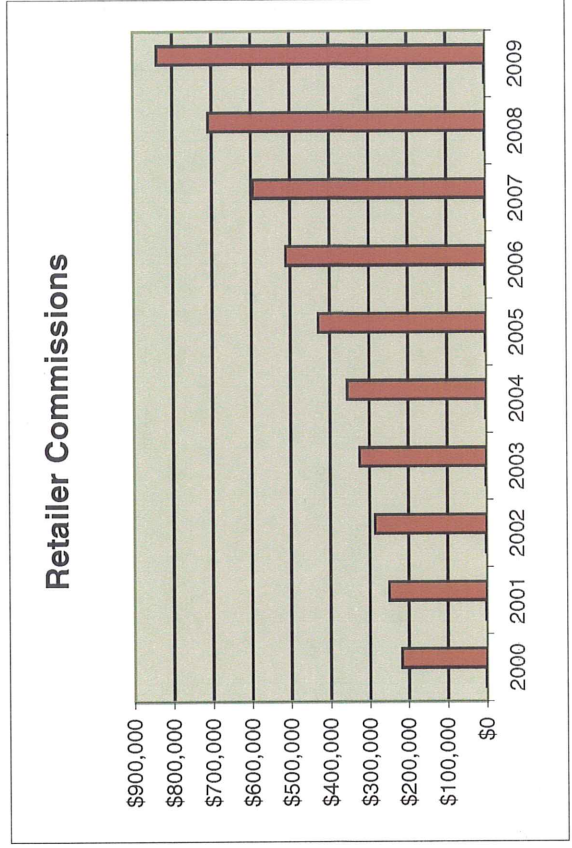
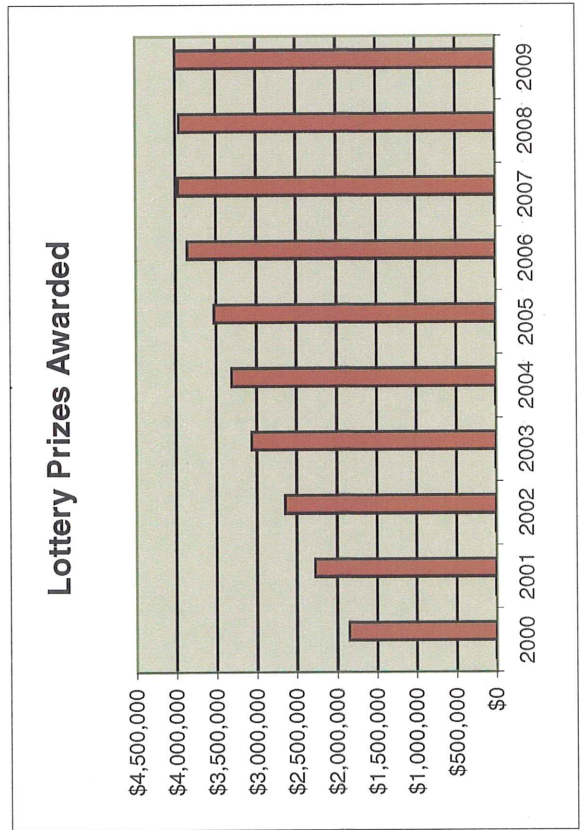
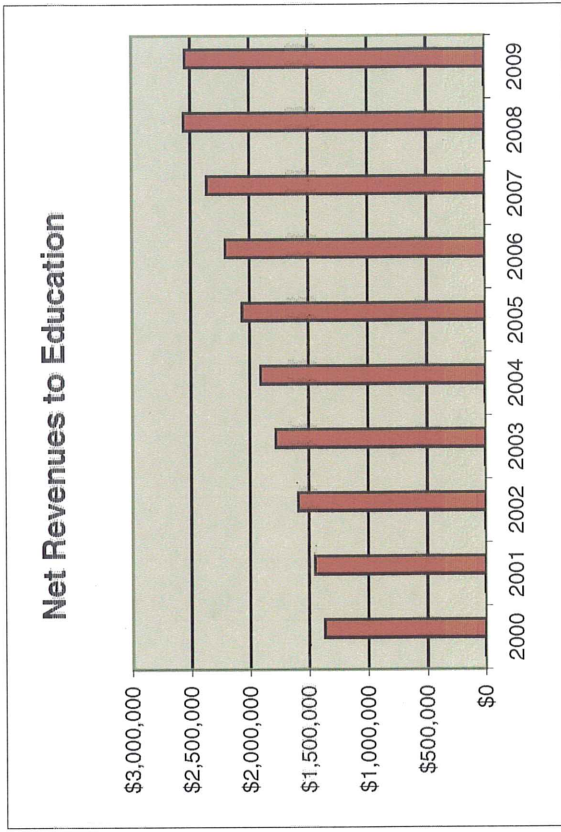
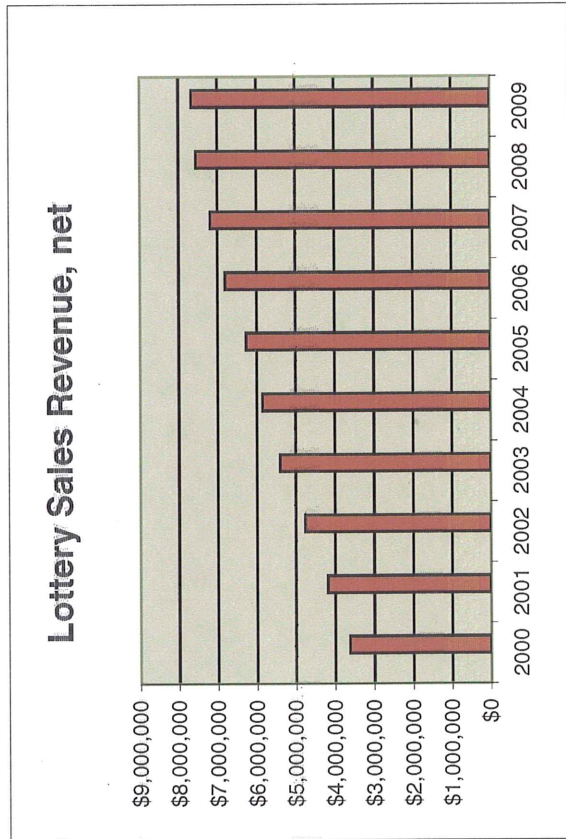
Note: Net assets were first established on the New York Lottery's financial statements in fiscal year 2002 with the implementation of GASB Statement 34.

New York Lottery
Changes in Net Assets
Fiscal Years 2002 through 2009
(in thousands)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Operating revenue	\$ 4,753,618	\$ 5,395,955	\$ 5,847,500	\$ 6,270,487	\$ 6,802,842	\$ 7,175,104	\$ 7,548,465	\$ 7,660,145
Lottery games revenue								
Operating expenses								
Prize expense	(2,641,181)	(3,061,744)	(3,306,335)	(3,523,530)	(3,853,270)	(3,970,739)	(3,952,761)	(4,003,267)
Retailer commissions	(285,702)	(324,891)	(355,656)	(429,182)	(511,059)	(595,348)	(708,514)	(839,312)
Gaming contractor fees	(63,700)	(55,647)	(61,511)	(78,008)	(88,028)	(100,554)	(120,887)	(126,479)
Instant ticket direct expenses	(21,981)	(32,259)	(32,511)	(31,174)	(32,091)	(28,095)	(28,160)	(32,755)
Telecommunications	(25,952)	(27,063)	(31,618)	(29,946)	(28,421)	(28,441)	(28,013)	(28,109)
Online games/jackpot marketing	(31,297)	(33,985)	(31,160)	(32,555)	(38,771)	(40,706)	(41,812)	(39,758)
Personal service and fringe benefits	(21,078)	(22,097)	(21,985)	(24,934)	(25,481)	(27,023)	(28,606)	(31,227)
Instant games marketing	(20,504)	(20,722)	(22,150)	(20,357)	(20,916)	(28,477)	(25,277)	(27,676)
All games marketing	(17,528)	(17,277)	(15,621)	(17,793)	(14,999)	(14,630)	(14,667)	(13,513)
Other administrative costs	(9,862)	(9,465)	(10,570)	(10,801)	(11,015)	(13,279)	(12,189)	(11,678)
State Agency charges	(2,459)	(3,514)	(3,547)	(6,811)	(9,469)	(13,208)	(3,461)	(1,710)
Depreciation	(65)	(101)	(179)	(1,916)	(2,487)	(3,051)	(4,654)	(4,599)
Total operating expenses	<u>(3,141,309)</u>	<u>(3,608,765)</u>	<u>(3,892,843)</u>	<u>(4,207,007)</u>	<u>(4,636,007)</u>	<u>(4,863,551)</u>	<u>(4,969,001)</u>	<u>(5,160,083)</u>
Operating income	1,612,309	1,787,190	1,954,657	2,063,480	2,166,835	2,311,553	2,579,464	2,500,062
Nonoperating revenue (expenses)								
Investment income	65,506	230,381	83,626	14,957	47,179	102,316	175,035	123,909
Other revenues (expense), net	367	647	644	166	(143)	(566)	(40,104)	(271)
Investment expense, net	(115,043)	(107,581)	(100,102)	(90,968)	(84,492)	(80,206)	(74,804)	(75,512)
Total nonoperating revenue (expenses)	<u>(49,170)</u>	<u>123,447</u>	<u>(15,832)</u>	<u>(75,845)</u>	<u>(37,456)</u>	<u>21,544</u>	<u>60,127</u>	<u>48,126</u>
Income before required allocation	1,563,139	1,910,637	1,938,825	1,987,635	2,129,379	2,333,097	2,639,591	2,548,188
Required allocation for aid to education	(1,589,714)	(1,780,355)	(1,907,402)	(2,062,702)	(2,202,619)	(2,359,640)	(2,556,135)	(2,543,950)
Change in net assets	<u>\$ (26,575)</u>	<u>\$ 130,282</u>	<u>\$ 31,423</u>	<u>\$ (75,067)</u>	<u>\$ (73,240)</u>	<u>\$ (26,543)</u>	<u>\$ 83,456</u>	<u>\$ 4,238</u>

Note: Net assets were first established on the New York Lottery's financial statements in fiscal year 2002 with the implementation of GASB Statement 34.

New York Lottery
 Major Components of Lottery Revenue
 Fiscal Years 2000 to 2009
 (in thousands)



New York Lottery
Revenue from Lottery Games Sales
Fiscal Years 2000 through 2009
(in thousands)

Games	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Draw Games:										
Lotto	\$ 686,263	\$ 558,483	\$ 565,287	\$ 392,046	\$ 356,428	\$ 305,863	\$ 252,643	\$ 216,572	\$ 208,400	\$ 178,075
Take Five	330,978	388,283	434,856	381,277	363,106	348,179	335,533	326,775	319,809	328,431
Pick 10	43,287	41,575	37,789	34,155	34,111	33,764	32,527	31,874	32,220	32,033
New York Numbers	709,477	709,126	736,534	762,622	764,277	796,032	827,409	854,791	856,539	850,331
Win-4	458,922	472,354	523,789	587,397	599,237	629,543	662,574	702,550	718,522	740,163
Quick Draw	332,088	508,378	488,842	476,294	500,194	473,594	460,528	444,978	444,256	424,422
Promotional Games*	62,451	121,014	0	0	0	0	154,881	102,026	17,797	8,388
Mega Millions	0	0	0	373,435	474,432	446,205	563,151	454,910	481,636	467,141
Total Draw Games	2,623,466	2,799,213	2,787,097	3,007,226	3,091,785	3,033,180	3,289,246	3,134,476	3,079,179	3,028,984
Video Lottery**	0	0	0	0	21,776	231,718	315,701	522,668	875,281	965,074
Instant Cash Games	1,005,792	1,386,117	1,966,521	2,388,729	2,733,939	3,005,589	3,197,895	3,517,960	3,594,005	3,666,087
Total Sales	\$3,629,258	\$4,185,330	\$4,753,618	\$5,395,955	\$5,847,500	\$6,270,487	\$6,802,842	\$7,175,104	\$7,548,465	\$7,660,145

*Promotional games are special games which are offered for only a limited period of time. The number of these games and their durations vary from year to year.

**Sales revenue for Video Lottery represents net machine income which is the amount left in the video gaming machines after players have taken their prizes.

New York Lottery
Operating Expenses and Allocations to the State for Education
Fiscal Years 2000 Through 2009
(in thousands)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Operating Expenses										
Prizes	\$1,848,929	\$2,273,582	\$2,641,181	\$3,061,744	\$3,306,335	\$3,523,530	\$3,853,270	\$3,970,739	\$3,952,761	\$4,003,267
Retailer comm./Contractor fees	307,263	354,967	349,402	380,538	417,167	507,190	599,087	695,902	829,401	965,791
Instant Ticket Costs	9,215	12,373	21,981	32,259	32,511	31,174	32,091	28,095	28,160	32,755
Administration	99,946	98,598	128,745	134,224	136,830	145,113	151,559	168,815	158,679	158,270
Total Expenses	<u>\$2,265,353</u>	<u>\$2,739,520</u>	<u>\$3,141,309</u>	<u>\$3,608,765</u>	<u>\$3,892,843</u>	<u>\$4,207,007</u>	<u>\$4,636,007</u>	<u>\$4,863,551</u>	<u>\$4,969,001</u>	<u>\$5,160,083</u>
Allocations to the State	<u>\$1,365,143</u>	<u>\$1,446,899</u>	<u>\$1,589,714</u>	<u>\$1,780,355</u>	<u>\$1,907,402</u>	<u>\$2,062,702</u>	<u>\$2,202,619</u>	<u>\$2,359,640</u>	<u>\$2,556,135</u>	<u>\$2,543,950</u>

New York Lottery
Outstanding Debt
Fiscal Years 2000 through 2009
(in thousands)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Summary of Outstanding Debt										
Current liabilities										
Prizes payable	\$ 208,929	\$ 212,445	\$ 217,550	\$ 221,890	\$ 216,766	\$ 203,601	\$ 195,544	\$ 198,871	\$ 189,792	\$ 184,703
Unclaimed prizes	301,204	383,930	179,260	212,159	220,400	210,081	189,229	230,015	223,978	189,248
Due to education	61,680	115,582	154,453	108,562	180,824	150,289	388,920	303,436	175,735	175,714
Accounts payable/accrued liabilities	23,464	39,625	19,835	14,038	33,223	24,536	17,217	34,796	27,004	20,718
Other liabilities	-	-	-	-	-	-	-	23,000	-	-
Capital lease obligations	-	-	-	-	820	2,276	2,352	4,448	4,531	2,673
Deferred ticket sales	10,309	8,193	8,697	10,277	9,502	9,796	9,133	9,251	14,688	12,301
Compensated absences	-	-	-	-	-	-	-	1,075	1,216	1,283
Total current liabilities	605,586	759,775	579,795	566,926	661,535	600,579	802,395	804,892	636,944	586,640
Noncurrent liabilities										
Compensated absences	-	-	4,742	5,049	5,263	5,566	4,840	376	291	305
Long-term capital lease obligations	-	-	-	-	3,461	7,710	5,358	11,557	6,895	4,222
Long-term prizes payable	1,396,494	1,356,503	1,293,651	1,243,112	1,172,751	1,119,793	1,126,766	1,138,237	1,174,483	1,236,198
Total noncurrent liabilities	1,396,494	1,356,503	1,298,393	1,248,161	1,181,475	1,133,069	1,136,964	1,150,170	1,181,669	1,240,725
Total liabilities	\$2,002,080	\$2,116,278	\$1,878,188	\$1,815,087	\$1,843,010	\$1,733,648	\$1,939,359	\$1,955,062	\$1,818,613	\$1,827,365

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Majority Type of Debt and Basis for Payment										
Majority type of debt (annuity prizes)										
Current prizes payable	\$ 208,929	\$ 212,445	\$ 217,550	\$ 221,890	\$ 216,766	\$ 203,601	\$ 195,544	\$ 198,871	\$ 189,792	\$ 184,703
Long-term prizes payable	1,396,494	1,356,503	1,293,651	1,243,112	1,172,751	1,119,793	1,126,766	1,138,237	1,174,483	1,236,198
Total prizes payable	1,605,423	1,568,948	1,511,201	1,466,002	1,389,517	1,323,394	1,322,310	1,337,108	1,364,275	1,420,901
Investments to pay annuity prizes										
Current investments	\$ 207,298	\$ 213,394	\$ 218,389	\$ 224,464	\$ 213,400	\$ 199,295	\$ 189,237	\$ 179,055	\$ 185,429	\$ 185,859
Long-term investments	1,472,361	1,502,833	1,389,151	1,460,099	1,365,669	1,237,322	1,165,778	1,081,364	1,307,544	1,375,670
Total investments	1,679,659	1,716,227	1,607,540	1,684,563	1,579,069	1,436,617	1,355,015	1,260,419	1,492,973	1,561,529
Investments as percent of annuities	105%	109%	106%	115%	114%	109%	102%	94%	109%	110%

NEW YORK STATE DEMOGRAPHIC INFORMATION
Last Ten Calendar Years Available

<u>Year</u>	<u>Population</u>	<u>Change From Prior Year</u>	<u>Personal Income</u>		<u>Change From Prior Year</u>	<u>Unemployment Rate</u>
			<u>Total (in millions)</u>	<u>Per Capita</u>		
1998	18,175,000		\$ 591,847	\$ 32,564		5.6%
1999	18,197,000	0.12%	\$ 619,659	\$ 34,053	4.57%	5.1%
2000	18,976,000	4.28%	\$ 663,005	\$ 34,939	2.60%	4.6%
2001	19,011,000	0.18%	\$ 679,886	\$ 35,763	2.36%	4.9%
2002	19,158,000	0.77%	\$ 677,604	\$ 35,369	(1.10%)	5.8%
2003	19,190,000	0.17%	\$ 691,123	\$ 36,015	1.83%	6.0%
2004	19,227,000	0.19%	\$ 737,756	\$ 38,371	6.54%	5.5%
2005	19,255,000	0.15%	\$ 805,717	\$ 41,845	9.05%	4.8%
2006	19,306,000	0.26%	\$ 818,426	\$ 42,392	1.31%	4.4%
2007	19,298,000	-0.04%	\$ 914,432	\$ 47,385	11.78%	4.2%

Sources: Bureau of Economic Analysis
U.S. Department of Commerce
U.S. Census Bureau
New York State Department of Labor,

Compiled by the Office of the State Comptroller of New York

EMPLOYMENT BY INDUSTRY
for most recent years available

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<u>Private employment</u>						
Forestry, fishing, etc.	23,689	24,455	22,684	23,280	23,271	23,707
Mining	9,876	8,733	10,022	9,516	9,866	9,959
Utilities	43,796	43,301	42,213	40,623	40,651	40,506
Construction	462,822	449,250	456,704	467,615	483,981	508,530
Manufacturing	734,909	680,268	642,125	626,157	612,145	598,993
Wholesale trade	399,253	387,074	384,490	389,951	391,525	394,772
Retail trade	1,026,415	1,022,037	1,025,356	1,039,785	1,058,146	1,065,731
Transportation, warehouse	324,632	311,291	309,902	317,870	327,069	337,573
Information	358,650	325,881	308,447	305,139	310,275	312,293
Finance, insurance	726,286	698,378	688,840	696,548	711,845	733,599
Real estate, rental, leasing	358,530	361,088	380,434	407,062	436,758	466,261
Professional, technical	798,205	782,981	794,919	823,816	835,753	866,101
Management	122,454	127,630	126,239	125,968	130,060	135,334
Administrative, waste services	523,064	511,429	513,021	529,832	537,833	539,449
Education	339,070	350,635	363,734	376,935	388,285	401,273
Health care, social assistance	1,322,903	1,358,742	1,400,504	1,421,958	1,440,752	1,466,699
Arts, entertainment, recreation	258,204	268,588	270,871	283,129	287,510	295,198
Accommodation, food service	554,968	558,728	572,337	583,087	591,426	598,360
Other services	558,911	578,888	584,642	588,524	591,172	605,482
Total	8,946,637	8,849,377	8,897,484	9,056,795	9,208,323	9,399,820
<u>Government employment</u>						
Federal, civilian	134377	133580	135408	130490	128925	127015
Military	57973	57603	57140	56362	56257	57590
State	251702	253528	250308	249034	247293	246101
Local	1,040,677	1,061,115	1,059,876	1,063,024	1,068,446	1,069,467
Total	1,484,729	1,505,826	1,502,732	1,498,910	1,500,921	1,500,173
Total nonfarm employment	10,431,366	10,355,203	10,400,216	10,555,705	10,709,244	10,899,993
Total farm employment	59,730	59,916	59,641	54,827	54,243	52,102
Total employment	10,491,096	10,415,119	10,459,857	10,610,532	10,763,487	10,952,095

Source: Regional Economic Information System, Bureau of Economic Analysis
through the Office of the State Comptroller

New York Lottery
Operating Information
Fiscal Years 2000 Through 2009
(all dollars in thousands)

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
<u>Draw Games</u>										
Sales	\$ 2,623,466	\$ 2,799,213	\$ 2,787,097	\$ 3,007,226	\$ 3,091,785	\$ 3,033,180	\$ 3,289,246	\$ 3,134,476	\$ 3,079,179	\$ 3,028,984
Prizes	\$ 1,270,070	\$ 1,382,495	\$ 1,371,154	\$ 1,495,540	\$ 1,507,863	\$ 1,539,996	\$ 1,741,777	\$ 1,634,152	\$ 1,554,302	\$ 1,544,341
Percent of sales	48%	49%	49%	50%	49%	51%	53%	52%	50%	51%
Retailer commissions	\$ 157,081	\$ 166,990	\$ 166,353	\$ 180,385	\$ 184,640	\$ 181,413	\$ 196,857	\$ 187,066	\$ 183,961	\$ 180,685
Percent of sales	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%
Contractor fees	\$ 46,544	\$ 49,319	\$ 48,008	\$ 38,020	\$ 39,531	\$ 38,782	\$ 41,351	\$ 39,660	\$ 39,378	\$ 38,691
Percent of sales	2%	2%	2%	1%	1%	1%	1%	1%	1%	1%
<u>Instant Games</u>										
Sales	\$ 1,005,792	\$ 1,386,117	\$ 1,966,521	\$ 2,388,729	\$ 2,733,939	\$ 3,005,589	\$ 3,197,895	\$ 3,517,960	\$ 3,594,005	\$ 3,666,087
Prizes	\$ 578,859	\$ 891,087	\$ 1,270,027	\$ 1,566,204	\$ 1,798,472	\$ 1,983,561	\$ 2,111,635	\$ 2,336,626	\$ 2,398,636	\$ 2,459,439
Percent of sales	58%	64%	65%	66%	66%	66%	66%	66%	67%	67%
Retailer commissions	\$ 60,348	\$ 83,167	\$ 119,349	\$ 144,506	\$ 164,701	\$ 180,571	\$ 192,094	\$ 211,370	\$ 216,830	\$ 219,974
Percent of sales	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%
Contractor fees	\$ 43,290	\$ 55,491	\$ 15,692	\$ 17,627	\$ 20,317	\$ 22,336	\$ 23,848	\$ 26,221	\$ 26,809	\$ 27,386
Percent of sales	4%	4%	1%	1%	1%	1%	1%	1%	1%	1%
Ticket and related costs	\$ 9,215	\$ 12,373	\$ 21,981	\$ 32,259	\$ 32,511	\$ 31,174	\$ 32,091	\$ 28,095	\$ 28,160	\$ 32,755
Percent of sales	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
<u>Video</u>										
Sales (net machine income)					\$ 21,776	\$ 231,718	\$ 315,701	\$ 522,668	\$ 875,281	\$ 965,074
Facility commissions					\$ 6,315	\$ 67,198	\$ 122,108	\$ 196,912	\$ 307,723	\$ 438,653
Percent of sales					29%	29%	39%	38%	35%	45%
Contractor fees					\$ 1,663	\$ 16,890	\$ 22,829	\$ 34,673	\$ 54,700	\$ 60,402
Percent of sales					8%	7%	7%	7%	6%	6%
<u>All Games</u>										
Sales	\$ 3,629,258	\$ 4,185,330	\$ 4,753,618	\$ 5,395,955	\$ 5,847,500	\$ 6,270,487	\$ 6,802,842	\$ 7,175,104	\$ 7,548,465	\$ 7,660,145
Administrative costs	\$ 99,946	\$ 99,598	\$ 128,745	\$ 134,224	\$ 136,830	\$ 145,113	\$ 151,559	\$ 168,815	\$ 158,679	\$ 168,270
Percent of sales	3%	2%	3%	2%	2%	2%	2%	2%	2%	2%
Number of Employees	333	326	340	330	329	335	333	334	342	359
Number of Retailers	15,900	15,600	15,100	15,100	15,000	16,000	16,000	16,000	16,135	16,516