

# **NEW YORK LOTTERY**

**An Enterprise Fund of the State of New York**

## **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**For the Fiscal Year Ended March 31, 2013**

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FINANCIAL REPORT**

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**Prepared by  
New York State Gaming Commission  
Financial Management Unit**

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**TABLE OF CONTENTS**

**INTRODUCTORY SECTION**

Letter of Transmittal .....	1
Organizational Chart .....	13
Certificate of Achievement.....	14

**FINANCIAL SECTION**

Independent Auditors' Report .....	15
Management's Discussion and Analysis.....	17
Basic Financial Statements	
Statements of Net Position .....	24
Statements of Revenue, Expenses, and Changes in Net Position .....	25
Statements of Cash Flows.....	26
Notes to Basic Financial Statements.....	27

**STATISTICAL SECTION (UNAUDITED)**

Statistical Section Overview.....	41
Net Position: Most Recent 10 Fiscal Years .....	42
Changes in Net Position: Most Recent 10 Fiscal Years .....	43
Major Components of Lottery Revenue: Most Recent 10 Fiscal Years.....	44
Revenue from Lottery Game Sales: Most Recent 10 Fiscal Years .....	45
Operating Expenses and Allocations: Most Recent 10 Fiscal Years.....	46
Outstanding Debt: Most Recent 10 Fiscal Years .....	47
New York State Demographics.....	48
Operating Information: Most Recent 10 Fiscal Years .....	50
Capital Assets: Most Recent 10 Fiscal Years.....	51

## INTRODUCTORY SECTION

Andrew M. Cuomo  
Governor

John A. Crotty  
John J. Poklemba  
Barry C. Sample  
Todd R. Snyder  
Commissioners



Robert Williams  
Acting Executive Director

Edmund C. Burns  
General Counsel

September 26, 2013

To readers of the New York State Gaming Commission's Comprehensive Annual Financial Report:

We are pleased to present the Comprehensive Annual Financial Report on the aid to education earning aspects (Traditional Lottery and Video Lottery) of the New York State Gaming Commission for the fiscal year ended March 31, 2013. This report has been prepared by the Financial Management Unit of the New York State Gaming Commission. The Gaming Commission 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 enterprise portions of the New York State Gaming Commission (Lottery) and the results of its operations for the period covered.

For the purposes of this Comprehensive Annual Financial Report the financial results, positions and activities of the New York State Gaming Commission's Division of the Lottery and Division of Gaming's Video Gaming Department are referred to jointly as the Lottery. This combination is utilized since both operations are lottery based and statutorily provide aid to education in New York State. The placement of these two aid to education supporting operations into different divisions of the New York State Gaming Commission was effective on February 1, 2013, late in the fiscal year addressed by this financial report.

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 Gaming Commission'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 10 years or as many years 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, as part of the New York State Gaming Commission. 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 mission of the Video Gaming Department of the Gaming Division is to operate and administer the Video Lottery program games and central system to raise revenues for aid to education.

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 or other portions of the New York State Gaming Commission.

## 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 of education. New York was the second state, behind New Hampshire, to conduct Lottery sales. 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.

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 September, 1980 and the excitement of “Lottomania” began in New York. Also in September, 1980 the Daily Numbers three-digit game began, followed by 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 and the game is now offered in over 8,400 locations statewide in varied types of establishments.

Following the terrorist attacks on the World Trade Center in 2001, the State Legislature permitted New York’s entry into a multi-jurisdictional lottery game and authorized video lottery gaming at certain pari-mutuel racetracks. Joining a multi-state lottery game was the shorter term project with the New York Lottery and the Ohio Lottery joining the participants of The Big Game and forming the new Mega Millions multi-jurisdictional game in May 2002.

Video Lottery Gaming was a major effort and it was January 2004 before the New York Lottery opened the doors of the first video lottery gaming facility in the State. Video lottery gaming terminals operate as electronic lottery games allowing multiple players to compete for prizes

awarded as a result of random drawings. Results are secured within the centrally located monitoring and control system. Video gaming facilities are now operational at nine racetracks throughout the State.

In September 2009, the Lottery launched Sweet Million, a draw game featuring a one million dollar jackpot prize. The introduction of this game was a response to consistent requests from players for a game with multiple jackpot winners, not just a single winner of a big jackpot. Sweet Million offers players the best odds of winning a one million dollar prize.

In 2009 the Mega Millions consortium began discussions with the Multi-State Lottery Association (MUSL), the administrators of the national Powerball game, to cross sell each other's games. The member states of each consortium subsequently ratified an agreement that authorized the New York Lottery to join the multi-state Powerball game and sales commenced in January 2010. The addition of this 2<sup>nd</sup> multi-state game allows the Lottery to offer New Yorkers the largest jackpot games in the nation four days per week.

On February 1, 2013, the Division of Lottery was merged with the New York State Racing and Wagering Board into a single oversight entity called the New York State Gaming Commission with overall responsibility for regulation and enforcement of all gaming activity in New York including horse racing, charitable gaming, and Native American casinos. The Division of the Lottery was given responsibility to administer all traditional lottery games as well as video lottery marketing. The Gaming Commission's Division of Gaming through its Video Gaming Department operates and administers the Video Lottery program.

## 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 18,000 retailers. Current offerings include nine 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.



**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, Washington, and the Multi-State Lottery Association (Powerball). Players choose five numbers from a pool of 56 and one number from a pool of 46 numbers. A player wins the jackpot by matching all six winning numbers drawn. Smaller prizes ranging from \$2 to \$250,000 can be won by matching one to five 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. A **Megaplier** feature gives players a chance to increase their non-jackpot prizes.



**POWERBALL** is a multi-jurisdictional game in which the New York Lottery participates with most other Mega Millions member states and the Multi-State Lottery Association member lotteries. Players choose five numbers from a pool of 59 and one number from a pool of 35 numbers. A player wins the jackpot by matching all six winning numbers drawn. Smaller prizes ranging from \$4 to \$1,000,000 can be won by matching one to five numbers. Players can select to receive the jackpot in annual installments or in one lump sum payment. Tickets cost two dollars and drawings are held twice per week, every Wednesday and Saturday. A **Power Play** multiplier feature gives players a chance to increase their non-jackpot prizes.



**LOTTO** is played by choosing six numbers from a pool of 59 and is still played for two games for one dollar. A player wins the jackpot by matching all six winning numbers drawn, but can also win other prizes by matching at least three winning numbers. Players can select to receive the jackpot in annual installments or in one lump sum payment. Drawings are held twice per week, every Wednesday and Saturday. Lotto is also available by subscription.



**SWEET MILLION** is played by choosing six 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 three 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.



**NUMBERS** is played by choosing a three-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 four-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 five 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 two of the winning numbers. Tickets cost one dollar and drawings are held every night.



**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 six, seven, eight, nine, or none of the winning numbers drawn. Drawings are held every night.



**QUICK DRAW** is played by choosing one 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 four minutes on a daily basis except for the half-hour from 3:30 to 4:00 AM.



**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.

## 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 eight additional video gaming facilities across the State. As of March 31, 2013, these nine facilities operate a statewide total of approximately 17,500 video lottery terminals.

Video Lottery Gaming was initially conducted 16 hours per day at each gaming facility but legislation effective August 11, 2010 allowed an additional four hours per day. Most games utilize a central determinant system that draws winners from a centralized finite prize pool, similar to the administration of an instant scratch off game. New York also offers Electronic Table Games in six locations (5 as of this writing) which use mechanical devices or computerized Random Number Generators to determine results for groups of players. By statute, video lottery games must pay out a minimum of 90% in prizes.

As of February 1, 2013 the operation and administration of the State's Video Lottery Gaming program was placed into the New York State Gaming Commission's Division of Gaming.



**Resorts World Casino New York City** is located at Aqueduct Racetrack in Jamaica. Owned by the State of New York and operated by Genting NY, LLC, Resorts World Casino opened on October 28, 2011, and operates approximately 5,000 video gaming machines.



**Empire City Casino at Yonkers Raceway** is located in Yonkers. Owned and operated by Yonkers Racing Corp, Empire City Casino opened on October 11, 2006, and operates approximately 5,370 video gaming machines.



**Saratoga Casino & Raceway** is located in Saratoga Springs. Owned and operated by Saratoga Harness Racing Inc., Saratoga Casino & Raceway opened on January 28, 2004, and operates 1,780 video gaming machines.



**Monticello Casino & Raceway** is located in Monticello. Owned and operated by Empire Resorts, Monticello Casino & Raceway opened on June 30, 2004, and operates 1,110 video gaming machines.



**Finger Lakes Casino & Racetrack** is located in Farmington. Owned and operated by Delaware North Inc., Finger Lakes Casino & Racetrack opened on Feb 18, 2004, and operates 1,200 video gaming machines.



**Hamburg Casino at the Fairgrounds** is located on the Fairgrounds in Hamburg, near Buffalo. Owned by the Erie County Agricultural Society and operated by Delaware North Inc., Hamburg Casino opened on March 17, 2004, and operates 940 video gaming machines.



**Vernon Downs Casino** is located in Vernon. Owned and operated by American Racing & Entertainment LLC, Vernon Downs Casino opened on October 26, 2006, and operates 770 video gaming machines.



**Tioga Downs Casino** is located in Nichols. Owned and operated by American Racing & Entertainment LLC, Tioga Downs Casino opened on July 4, 2006, and operates 800 video gaming machines.



**Batavia Downs Casino** is located in Batavia. Owned and operated by Western Regional Off-Track Betting Corporation, Batavia Downs Casino opened on May 18, 2005, and operates 640 video gaming machines.

## New York Economic Outlook

As of June, 2013, New York's unemployment rate was 7.6%. This was down 1.5% from the 9.1% unemployment rate in June 2012. Approximately 735,000 are unemployed from a work force of approximately 9.7 million. The five year history of New York State unemployment rates are listed in the following table.

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ann Avg
2013	9.3%	8.8%	8.0%	7.3%	7.4%	7.6%	N/A	N/A	N/A	N/A	N/A	N/A	
2012	9.1%	9.2%	8.7%	8.1%	8.6%	9.1%	9.1%	8.8%	8.2%	8.3%	7.9%	8.2%	8.6%
2011	8.9%	8.7%	8.0%	7.6%	7.8%	8.0%	8.0%	7.7%	7.8%	7.7%	7.9%	8.0%	8.0%
2010	9.6%	9.5%	9.1%	8.5%	8.3%	8.4%	8.6%	8.3%	8.2%	8.0%	8.2%	8.0%	8.6%
2009	7.7%	8.3%	8.2%	7.8%	8.1%	8.6%	8.8%	8.6%	8.7%	8.7%	8.5%	8.8%	8.4%

New York is currently below the national unemployment rate, which dropped from 8.4% a year ago to 7.8% in June 2013. New York’s unemployment rate has also declined from the previous year for each of the most recent five months reported. All unemployment figures above were provided by the New York State Department of Labor.

Improving unemployment rates will provide a favorable environment for Lottery sales in the coming year. As a mature lottery, the New York Lottery expects only incremental growth in most of the traditional lottery games. The main potential for higher growth is in jackpot-driven games like Mega Millions and Powerball, during intervals when jackpots roll to higher levels and drive higher sales. The Lottery also expects to see continued growth in Video Gaming as its ninth facility, which opened at Aqueduct Racetrack in the last quarter of 2011, continues to grow toward its full potential. Additional video gaming facilities will be opened in the coming years.

As part of the Lottery’s long-term financial planning, the Lottery routinely prepares sales and profit projections and assists the New York State Division of the Budget in preparing Traditional Lottery and Video Lottery revenue estimates to be used in the State’s five-year financial plan.

## Accomplishments

- In the fiscal year ended March 31, 2013, New York Lottery revenues reached \$8.934 billion while net profit earned for aid to education reached \$3.046 billion. The revenue figure was a record-setting amount, not only for the New York Lottery, but for all North American lotteries as well. Compared to the previous year, traditional draw game sales sustained modest growth while video lottery gaming increased by 27.9%, primarily due to the first full year of operations at Resorts World Casino at Aqueduct Racetrack.
- Resorts World Casino at Aqueduct Racetrack continues to build on its strong performance to date. During its first full year of operation, it produced \$690.8 million in net machine income, resulting in \$303.9 million in aid to education.
- Empire City Casino at Yonkers Raceway completed construction on renovations that included a 36,000 sq. ft. expansion of the gaming floor, a new porte-cochere, and additional restaurants and pubs. The improvements have driven gaming revenue increases

that have offset the cannibalization experienced by the casino during the first year of operations at nearby Resort World Casino.

- Powerball game changes were implemented in February 2012 to create larger jackpots and enhance overall game sales. The game redesign included a \$2.00 price point, starting jackpots of \$40 million, and increased low tier prizes. The changes produced their desired results as Powerball sales in 2012-13 exceeded those of the previous year by 58.4%.
- A Business Services Center was created within the NYS Office of General Services to centralize and streamline Finance services that are common across all state agencies. The goal of the BSC is to increase the efficiency and effectiveness of government operations. The BSC will process accounts payable, purchasing, and travel transactions for the Lottery.

## Future Projects

- After two consecutive passages in the State Legislature, a historic vote will take place in November, 2013 on a statewide referendum to allow non-Indian casino gaming in restricted zones within New York State. If the referendum receives voter approval, as many as 4 new casinos would initially be built. Tax on casino gaming revenues would be dedicated in support of education and property tax relief. The legislation also authorizes two additional video lottery facilities at off track betting locations in Suffolk and Nassau counties. The outcome of the referendum will have a significant impact on Lottery sales and aid to education, so the Lottery is reviewing its marketing, operations and delivery strategies in an attempt to reduce or eliminate cannibalization of traditional Lottery sales and aid to education.
- Batavia Downs Gaming will complete construction on a gaming floor expansion in Oct, 2013. The expansion will move gaming from the second floor to the first floor and increase the number of video lottery terminals (VLT) available for play from 640 to 779.
- Finger Lakes Gaming & Racetrack will complete construction on a gaming floor expansion in the fourth quarter of 2013. The expansion includes 350 additional VLT's, a feature bar and stage, and additional restaurants.
- Several game changes will be made this year as the NY Lottery competes for discretionary spending in an expanding gaming landscape. The Mega Millions game will change to a new matrix effective with the October 22, 2013 drawing. The game will remain at the \$1 price point but the new game design will drive more rolls and higher jackpots while lowering the overall odds of winning a prize. The Megaplier game will be redesigned as well to increase the potential 2<sup>nd</sup> prize to as much as \$5 million. Likewise, Powerball's Powerplay feature will change in January, 2014 and will once again multiply all prizes other than the jackpot and the 2<sup>nd</sup> prize by 2, 3 or 4 times rather than pay a fixed payout.
- The New York Lottery is introducing a new short run multi-jurisdictional Halloween Millions Raffle game along with 6 other states in September, 2013. This Halloween

theme game will be on sale for a one month period ending October 31<sup>st</sup>. If successful, a similar raffle game will be introduced in March or April of 2014.

- In 2013-14, the Lottery will provide additional marketing and advertising support for core games like Numbers and Win 4, which have experienced stagnant sales growth in recent years. Initial results in the first few months of 2013-14 have been very positive with these games.
- Bonus payout promotions have been very popular with Quick Draw players, so promotional support of this game will be expanded to include more frequent bonus payouts. Continued recruitment of new Quick Draw locations will increase market penetration in the more populous areas of the State.
- In the second quarter of 2013-14, the Lottery will expand payment options for Lottery subscribers which will allow players to purchase subscriptions via credit card or direct withdrawal from a checking or savings account.

## **Financial Information**

### **Internal Controls**

New York State Gaming Commission 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 Gaming Commission'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 Gaming Commission and its aid to education producing divisions are 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, 2013, administrative surplus amounted to \$433.1 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-backed securities and New York City municipal bonds whose interest payments and maturities are timed to correspond with payments due to prize winners. As of March 31, 2013, the accrued value of the Lottery's installment prizes payable was \$1.495 billion, with \$169.8 million payable within one year and \$1.325 billion classified as long-term.

## **Financial Policy Changes**

There were no financial policy changes during the year ended March 31, 2013.

## **Risk Management**

On March 31, 2013, the Lottery maintained accounts receivable of \$441.5 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 Lottery Gaming receipts are collected two business days after the gaming day. Draw 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 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, 2013 were audited by KPMG LLP. The auditor's report and the financial statements are included in the Financial Section of this report.

## **Certificate of Achievement**

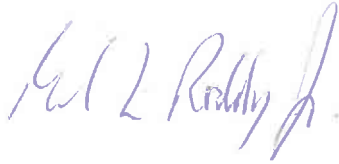
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the New York Lottery for its comprehensive annual financial report for the fiscal year ended March 31, 2012. In order to be awarded a Certificate of Achievement, a government 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. We believe that our current comprehensive annual financial report continues to meet the requirements of the Certificate of Achievement Program, and we are 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,



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Frank L. Roddy Jr  
Administrative Officer, CFO



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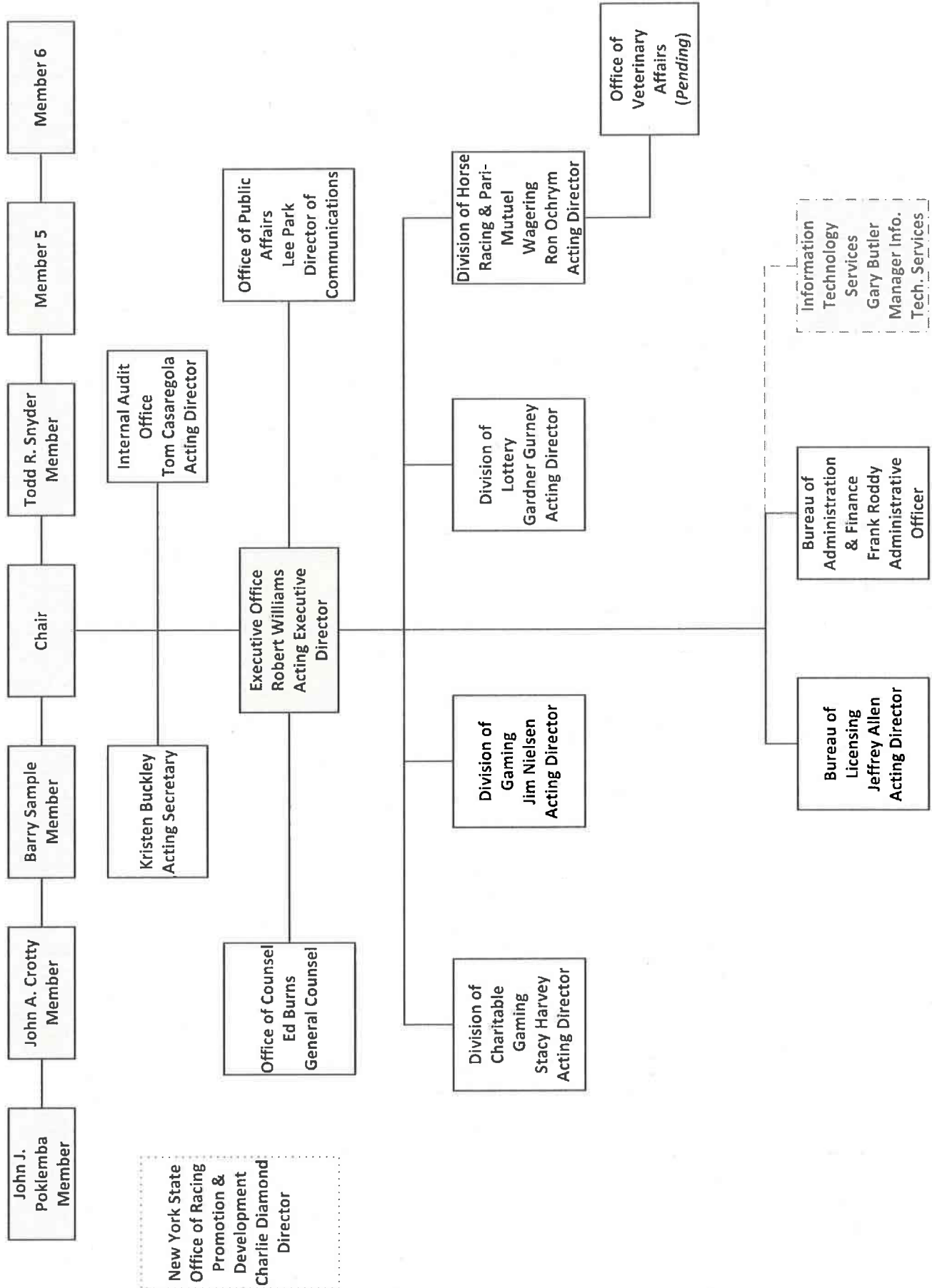
Gardner S. Gurney  
Acting Director  
Division of the Lottery



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Robert Williams  
Acting Executive Director

# New York State Gaming Commission





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For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**March 31, 2012**

Executive Director/CEO

**FINANCIAL SECTION**



KPMG LLP  
515 Broadway  
Albany, NY 12207-2974

## Independent Auditors' Report

The New York State Gaming Commission:

We have audited the accompanying statements of net position of the New York State Lottery (the Lottery), an enterprise fund of the State of New York, as of March 31, 2013 and 2012, and the related statements of revenue, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the basic financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the New York State Lottery as of March 31, 2013 and 2012, and the changes in its net position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



### **Emphasis of a Matter**

As discussed in note 1, the Lottery's financial statements present only the New York State Lottery enterprise fund of the State of New York and do not purport to, and do not, present fairly the financial position of the State of New York, as of March 31, 2013 and 2012, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### **Other Matters**

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

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**KPMG LLP**

Albany, New York  
July 3, 2013

## NEW YORK STATE LOTTERY

### Management's Discussion and Analysis (Unaudited)

March 31, 2013 and 2012

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, 2013 and 2012. 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, 2013 and 2012 have been prepared in accordance with U.S. generally accepted accounting principles.

#### Financial Highlights

- New York Lottery revenues totaled \$8.934 billion, the largest total ever for the Lottery, while net proceeds earned for Lottery Aid to Education reached \$3.046 billion for fiscal year 2013.
- New York Lottery revenues in fiscal year 2013 surpassed the revenues of 2012 by \$494.8 million or 5.9%. In fiscal year 2012, the annual revenue increase was \$571.3 million or 7.3%.
- Net proceeds earned for Lottery Aid to Education in fiscal year 2013 were more than the net proceeds of 2012 by \$157.8 million or 5.5%. Comparatively, the annual earnings for education in fiscal year 2012 were less than 2011 by \$161.2 million or 5.3%.
- Prize expense increased by \$88.6 million or 2.1% during fiscal year 2013. Prize expense increased by \$162.7 million or 4.1% during fiscal year 2012. Prize expense generally follows the changes occurring in traditional sales which in 2013 increased by 1.4%.
- Operating income increased by \$165.5 million or 5.7% during fiscal year 2013. Operating income increased by \$231.6 million or 8.6% during fiscal year 2012.
- Nonoperating income decreased by \$87.0 million during fiscal year 2013. Nonoperating income decreased by \$273.8 million during fiscal year 2012. The changes in this category are generally the result of unrealized gains/losses on investments. The 2012 decrease however was primarily the result of being compared to 2011 which contained a \$380 million licensing fee received for the right to operate the Aqueduct video gaming facility.
- Working Capital (current assets minus current liabilities) decreased to \$219.1 million at the end of fiscal year 2013. This was a decrease of \$12.7 million or 5.5% compared to fiscal year 2012. At the end of fiscal year 2012, working capital was \$231.8 million, an increase of \$94.2 million or 68.5% compared to fiscal year 2011. The primary reason for the large increase in 2012 is that current liabilities included \$134.6 million in jackpots won but not yet paid at the end of 2011 while the corresponding amount was only \$7.5 million at the end of 2012.

#### 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 2013 and 2012:

## NEW YORK STATE LOTTERY

### Management's Discussion and Analysis (Unaudited)

March 31, 2013 and 2012

#### *Statements of Net Position*

The statement on page 10 provides information on the nature and amount of the Lottery's assets, liabilities and net position at the close of fiscal years 2013 and 2012. The relationship of assets to liabilities and resulting net position is one indicator of the financial condition of the Lottery and can also be a reflection of changes within the Lottery.

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

The statement on page 11 reflects the Lottery's operating and nonoperating revenues and expenses and the change in net position for the year.

#### *Statements of Cash Flows*

The comparative statement on page 12 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 Account – Utilized to pay for the Lottery's administrative costs that are not related to or funded by video gaming revenues.
- Video Gaming Education Account – Accumulates the required deposits for Aid to Education from video gaming operations.
- Video Gaming Prize Pending Account – Consists of video gaming prizes awarded that have not yet been claimed.
- Video Gaming Administration Account – Utilized to pay the administrative costs of video gaming.

## NEW YORK STATE LOTTERY

### Management's Discussion and Analysis (Unaudited)

March 31, 2013 and 2012

#### Financial Analysis

##### *Summary of Net Position*

The comparative summary of net position represents the Lottery's financial position as of the fiscal years ended for 2013, 2012, and 2011 (in millions):

	FY 2013	FY 2012	FY 2011	FY 2013 vs. FY 2012		FY 2012 vs. FY 2011	
				Dollar change	Percent change	Dollar change	Percent change
Capital assets	\$ —	—	2	—	—	\$ (2)	(100.0)%
Other assets	2,589	2,449	2,318	140	5.7	131	5.7
<b>Total assets</b>	<b>2,589</b>	<b>2,449</b>	<b>2,320</b>	<b>140</b>	<b>5.7</b>	<b>129</b>	<b>5.6</b>
Current liabilities	811	770	851	41	5.3	(81)	(9.5)
Noncurrent liabilities	1,325	1,307	1,258	18	1.4	49	3.9
<b>Total liabilities</b>	<b>2,136</b>	<b>2,077</b>	<b>2,109</b>	<b>59</b>	<b>2.8</b>	<b>(32)</b>	<b>(1.5)</b>
Restricted net position	185	141	105	44	31.2	36	34.3
Unrestricted net position	268	230	106	38	16.5	124	117.0
<b>Total net position \$</b>	<b>453</b>	<b>371</b>	<b>211</b>	<b>82</b>	<b>22.1</b>	<b>\$ 160</b>	<b>75.8</b>

##### *Capital Assets*

Capital assets consist of equipment and leasehold improvements. During fiscal year 2013 and 2012, there were no significant changes in capital assets other than disposal of fully depreciated assets. Activity was primarily limited to yearly depreciation. Additional information about the Lottery's capital assets can be found in note 1i of the notes to the basic financial statements.

##### *Other Assets*

Other assets consist of cash and cash equivalents, accounts receivable, instant ticket inventory, and investments. During fiscal year 2013, other assets increased by \$140.2 million which represented a change of 5.7% from the previous year. This increase was a net result of increases to cash and investments offset by a decrease in receivables. In fiscal year 2012 other assets increased by \$130.3 million, or 5.7%.

##### *Current Liabilities*

Current liabilities consist of 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 long-term prizes payable and amounts due to employees for unused vacation leave. In total, these accounts increased by \$40.8 million during fiscal year 2013. This change can be compared to the fiscal year ended March 31, 2012 when there was a \$80.5 million annual decrease in total current liabilities.

##### *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 and unused employee vacation leave. During fiscal year 2013, noncurrent liabilities increased

## NEW YORK STATE LOTTERY

Management's Discussion and Analysis (Unaudited)

March 31, 2013 and 2012

by \$17.9 million, with the increase occurring primarily in the category of long-term prizes payable. During fiscal year 2012, noncurrent liabilities increased by \$48.6 million, with the increase occurring primarily in the category of long-term prizes payable. Additional information about the Lottery's noncurrent liabilities can be found in note 5 of the notes to the basic financial statements.

### *Net Position*

Restricted net position for future prizes consists 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, Powerball, or Mega Millions jackpot or contribute toward a created but unclaimed instant ticket prize. These amounts are available by statute for this purpose.

Investment in capital assets is the amount recorded as capital assets less the amounts of related debt. During fiscal years 2013, 2012, and 2011, capital assets were \$0.005 million, \$0.04 million and \$1.7 million, respectively, while related debt was \$0.0 million, \$0.0 million and \$1.8 million.

Unrestricted net position listed on the statement of net position is largely the cumulative result of increased fair market value of the investments held by the Lottery to pay annuity prizes. Since the full maturity value of the investments is needed to pay the annuity prizes, the Lottery does not expect to realize any permanent gain on these investments.

## NEW YORK STATE LOTTERY

### Management's Discussion and Analysis (Unaudited)

March 31, 2013 and 2012

#### *Summary of Revenue, Expenses, and Changes in Net Position*

The following summary compares the Lottery's operating revenues, expenses and changes in net position for the fiscal years 2013, 2012 and 2011 (in millions).

	FY 2013	FY 2012	FY 2011	FY 2013 vs. FY 2012		FY 2012 vs. FY 2011	
				Dollar change	Percent change	Dollar change	Percent change
Operating revenue:							
Lottery revenue, net	\$ 8,934	8,439	7,868	495	5.9%	\$ 571	7.3%
Operating expenses:							
Direct expenses	(5,708)	(5,386)	(5,038)	(322)	6.0	(348)	6.9
Indirect expenses	(138)	(130)	(139)	(8)	6.2	9	(6.5)
Total operating expenses	(5,846)	(5,516)	(5,177)	(330)	6.0	(339)	6.5
Operating income	3,088	2,923	2,691	165	5.6	232	8.6
Nonoperating income (expenses):							
Nonoperating income	108	197	473	(89)	(45.2)	(276)	(58.4)
Nonoperating expenses	(69)	(71)	(74)	2	(2.8)	3	(4.1)
Total nonoperating income (expenses)	39	126	399	(87)	(69.0)	(273)	(68.4)
Income before required allocation	3,127	3,049	3,090	78	2.6	(41)	(1.3)
Required allocation – contribution for aid to education	(3,046)	(2,888)	(3,049)	(158)	5.5	161	(5.3)
Change in net position \$	81	161	41	(80)	(49.7)	120	292.7

#### *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 17,000 licensed retail locations across the state. The Lottery also achieves its mission through nine licensed video lottery gaming facilities located in Saratoga, Monticello, Farmington, Hamburg, Batavia, Tioga, Vernon, Yonkers, and New York City.

During fiscal year 2013, the Lottery achieved \$3.385 billion in draw sales, \$3.724 billion in instant sales, and \$1.825 billion in video lottery gaming net machine income for a total of \$8.934 billion, an increase of \$494.8 million or 5.9% over the previous fiscal year. This record year eclipses the record set the previous year when 2012 revenues reached \$8.439 billion, an increase of \$571.3 million or 7.3%. The most significant growth was generated in video gaming during both fiscal years.

## NEW YORK STATE LOTTERY

### Management's Discussion and Analysis (Unaudited)

March 31, 2013 and 2012

The following compares the Lottery's revenues by game and the percentage of total revenues by game for the fiscal years 2013, 2012, and 2011 (in millions).

Game	FY 2013		FY 2012		FY 2011	
	Revenue	Percent of total revenues	Revenue	Percent of total revenues	Revenue	Percent of total revenues
Mega Millions	\$ 255	2.9%	\$ 465	5.5%	\$ 463	5.9%
Lotto	110	1.2	122	1.5	133	1.7
Take 5	266	3.0	284	3.4	283	3.6
Numbers	847	9.5	880	10.4	854	10.8
Win 4	794	8.9	814	9.6	777	9.9
Quick Draw	580	6.5	502	5.9	424	5.4
Pick 10	30	0.3	31	0.4	30	0.4
Sweet Million	35	0.4	39	0.5	45	0.6
Powerball	468	5.2	296	3.5	203	2.6
Instant	3,724	41.7	3,579	42.4	3,546	45.0
Subtotal traditional lottery	7,109	79.6	7,012	83.1	6,758	85.9
Video Gaming, net *	1,825	20.4	1,427	16.9	1,110	14.1
Total revenues	<u>\$ 8,934</u>	<u>100.0%</u>	<u>\$ 8,439</u>	<u>100.0%</u>	<u>\$ 7,868</u>	<u>100.0%</u>

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

	FY 2013	FY 2012	FY 2011
Credits played	\$ 28,672	19,547	13,337
Credits won	(26,847)	(18,120)	(12,227)
Net machine income	<u>\$ 1,825</u>	<u>1,427</u>	<u>1,110</u>

#### **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 approximately 75% of direct expenses during each of the three years being discussed. Prizes increased by \$88.6 million to \$4.219 billion in fiscal year 2013. At the same time, retailer commissions increased by \$199.6 million to \$1.237 billion and gaming contractor fees increased by \$35.6 million to \$209.3 million.

During fiscal year 2012, prize expense increased by \$162.7 million to \$4.130 billion. At the same time, retailer commissions increased by \$155.1 million to \$1.037 billion and gaming contractor fees increased by \$30.4 million to \$173.7 million.

#### **Other Operating Expenses**

Other operating expenses include marketing, state agency charges, personal services, fringe benefits and other administrative costs. These costs were \$138.0 million during fiscal year 2013 which was 6.3% higher than the prior year. Corresponding costs in fiscal year 2012 were \$129.8 million which was 6.3% lower than in fiscal year 2011.

## NEW YORK STATE LOTTERY

Management's Discussion and Analysis (Unaudited)

March 31, 2013 and 2012

### *Nonoperating Revenues (Expenses)*

Nonoperating revenues and expenses consist of miscellaneous income plus the net growth or decline in the fair market value of investments used to fund long-term prizes. Investment income of \$107.7 million in 2013, \$197.0 million in 2012 and \$90.9 million in 2011 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, which is subject to considerable variance over time, is the primary factor in causing any large differences 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 position balance on the statement of net position.

### *Income Before Required Allocation and Change in Net Position*

The revenues and expenses for fiscal year 2013 resulted in income before required allocation totaling \$3.127 billion. This amount consists of a required allocation for Aid to Education of \$3.046 billion that transfers out as a contribution for Aid to Education and an \$81.5 million increase in net position for the year. The \$81.5 million increase in net position is a combination of a \$43.9 million increase in net position restricted for prizes and a \$37.6 million increase in unrestricted net position. The revenues and expenses for fiscal year 2012 resulted in income before required allocation totaling \$3.049 billion. This amount consists of a required allocation for Aid to Education of \$2.888 billion that transfers out as a contribution for Aid to Education and a \$160.7 million increase in net position for the year. The \$160.7 million increase in net position is a combination of a \$36.1 million increase in net position restricted for prizes, a \$0.1 million increase in net position invested in capital assets, and a \$124.5 million increase in unrestricted net position.

### **Summary and Outlook**

As a mature business entity, the New York Lottery generally anticipates only moderate but steady growth from year to year. An opportunity to move beyond normal growth occurred in October 2011 with the opening of a new video gaming facility in Queens, NY, at the Aqueduct Racetrack. As a result, video lottery revenue grew from \$1.110 billion in 2011 to \$1.427 billion in 2012 to \$1.825 billion in 2013.

### **Contacting New York Lottery's Financial Management**

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 [info@gaming.ny.gov](mailto:info@gaming.ny.gov) or write to The New York State Gaming Commission Communications Office, One Broadway Center, P.O. Box 7500, Schenectady, NY 12301-7500.

**NEW YORK STATE LOTTERY**

Statements of Net Position

March 31, 2013 and 2012

(In thousands)

<b>Assets</b>	<b>2013</b>	<b>2012</b>
Current assets:		
Cash and cash equivalents	\$ 444,837	386,230
Accounts receivable	441,486	469,732
Instant ticket inventory	8,378	7,991
Investments	135,542	138,133
Total current assets	<u>1,030,243</u>	<u>1,002,086</u>
Noncurrent assets:		
Long-term investments, net	1,558,642	1,446,593
Capital assets	5	43
Total noncurrent assets	<u>1,558,647</u>	<u>1,446,636</u>
Total assets	<u>2,588,890</u>	<u>2,448,722</u>
<b>Liabilities</b>		
Current liabilities:		
Prizes payable	169,841	171,051
Unclaimed prizes	345,115	335,110
Due to education	260,381	227,586
Accounts payable and accrued liabilities	25,844	25,150
Deferred ticket sales	8,352	9,602
Compensated absences	1,554	1,765
Total current liabilities	<u>811,087</u>	<u>770,264</u>
Noncurrent liabilities:		
Compensated absences	341	662
Long-term prizes payable	1,324,714	1,306,498
Total noncurrent liabilities	<u>1,325,055</u>	<u>1,307,160</u>
Total liabilities	<u>2,136,142</u>	<u>2,077,424</u>
<b>Net Position</b>		
Restricted for future prizes	184,824	140,965
Investment in capital assets	5	43
Unrestricted	267,919	230,290
Total net position	<u>\$ 452,748</u>	<u>371,298</u>

See accompanying notes to basic financial statements.

## NEW YORK STATE LOTTERY

### Statements of Revenue, Expenses, and Changes in Net Position

Years ended March 31, 2013 and 2012

(In thousands)

	2013	2012
Operating revenue:		
Lottery revenue, net	\$ 8,934,288	8,439,473
Operating expenses:		
Prize expense	(4,218,988)	(4,130,406)
Retailer commissions	(1,236,613)	(1,036,958)
Gaming contractor fees	(209,321)	(173,704)
Instant ticket direct expenses	(21,771)	(25,194)
Telecommunications	(20,954)	(20,330)
Total direct expenses	(5,707,647)	(5,386,592)
Marketing and advertising expense	(89,995)	(85,825)
Personal service and fringe benefits	(30,244)	(31,020)
Other administrative costs	(16,295)	(9,620)
State agency charges	(1,458)	(1,618)
Depreciation	(38)	(1,677)
Total indirect expenses	(138,030)	(129,760)
Total operating expenses	(5,845,677)	(5,516,352)
Operating income	3,088,611	2,923,121
Nonoperating revenue (expenses):		
Investment income	107,719	196,965
Other revenue (expense), net	(279)	(230)
Investment expense, net	(68,827)	(71,160)
Total nonoperating revenue (expense)	38,613	125,575
Income before required allocation	3,127,224	3,048,696
Required allocation for aid to education	(3,045,774)	(2,887,988)
Change in net position	81,450	160,708
Net position beginning of year	371,298	210,590
Net position end of year	\$ 452,748	371,298

See accompanying notes to basic financial statements.

**NEW YORK STATE LOTTERY**  
**Statements of Cash Flows**  
Years ended March 31, 2013 and 2012  
(In thousands)

	<u>2013</u>	<u>2012</u>
Operating activities:		
Cash received from net lottery revenue	\$ 8,999,587	8,328,528
Cash payments for prizes	(4,306,257)	(4,048,705)
Cash payments for commissions	(1,236,601)	(1,036,883)
Cash payments for contractor fees	(208,686)	(172,182)
Cash payments for telecommunications	(20,954)	(20,330)
Cash payments for instant ticket direct expenses	(21,963)	(22,169)
Cash payments for other operating expenses	(131,556)	(132,210)
Other cash payments	(279)	(230)
Net cash provided by operating activities	<u>3,073,291</u>	<u>2,895,819</u>
Investing activities:		
Proceeds from investment maturities	144,427	153,115
Purchases of investments	(171,461)	(87,545)
Interest on cash and cash equivalents and investments	25,329	25,282
Net cash (used in) provided by investing activities	<u>(1,705)</u>	<u>90,852</u>
Noncapital financing activities:		
Cash transfer to State for Aid to Education	(3,052,979)	(2,883,980)
Cash received from State General Fund for Lottery Aid Guarantee	40,000	54,881
Net cash used in noncapital financing activities	<u>(3,012,979)</u>	<u>(2,829,099)</u>
Capital financing activities:		
Cash payments for equipment and capital leases	—	(1,810)
Net cash used in capital financing activities	<u>—</u>	<u>(1,810)</u>
Net increase in cash and cash equivalents	58,607	155,762
Cash and cash equivalents, beginning of year	<u>386,230</u>	<u>230,468</u>
Cash and cash equivalents, end of year	<u>\$ 444,837</u>	<u>386,230</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 3,088,611	2,923,121
Adjustments to reconcile operating income to net cash provided by operating activities:		
Other cash payments	(279)	(230)
Depreciation	38	1,677
Change in operating assets and liabilities:		
Decrease in accounts receivable, net	28,212	128,685
(Increase) decrease in ticket inventory	(387)	2,851
Decrease in prizes payable	(51,821)	(24,021)
Increase in unclaimed prizes	10,005	10,097
Increase (decrease) in compensated absences	(532)	598
Increase (decrease) in accounts payable and accrued liabilities	694	(144,753)
Decrease in deferred ticket sales	(1,250)	(2,206)
Net cash provided by operating activities	<u>\$ 3,073,291</u>	<u>2,895,819</u>
Noncash investing activities:		
Increase in unrealized gains on investments	\$ 37,592	124,636
Amortization of investment discount	44,832	47,065

See accompanying notes to basic financial statements.

## NEW YORK STATE LOTTERY

### Notes to Basic Financial Statements

March 31, 2013 and 2012

#### (1) Summary of Significant Accounting Policies

The New York State Lottery (Lottery) was established in 1967. In 1976, the Lottery was placed under 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). On February 1, 2013, the Division of Lottery was merged with the New York State Racing and Wagering Board into a single oversight entity called the New York State Gaming Commission, which was given responsibility to administer traditional and video lottery games as part of its overall responsibility for regulation and enforcement of gaming activity in New York. The purpose of the Lottery is to raise revenue for education in the State of New York (State) through the administration of lottery games.

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. However, the Lottery is included in the State of New York's Basic Financial Statements as an enterprise fund.

The Lottery applies all applicable Governmental Accounting Standards Board (GASB) pronouncements and prepares its financial statements under the economic resources measurement focus, whereby all inflows, outflows and balances affecting net position are reported, and 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 more significant accounting policies of the Lottery are described below:

##### (a) Revenue Recognition

###### (i) Draw Games

Revenue from ticket sales for Lotto, Sweet Million, Quick Draw, Take 5, Pick 10, Mega Millions, PowerBall, 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 will not be recognized as revenue until 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.

###### (iii) Video Gaming

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

## NEW YORK STATE LOTTERY

### Notes to Basic Financial Statements

March 31, 2013 and 2012

**(b) Prize Expense**

The Lottery recognizes prize expense for draw games equivalent to the actual prize liability incurred for each drawing. Prize expense for Instant Games is recognized when instant books are activated by retailers and is based on the percentage of sales allocated to prizes for each game. Video lottery revenue is reported net of prizes, so prize expense is not recognized on these games. Prize expense is adjusted accordingly for any prizes unclaimed within the time period allowed by law.

**(c) Commissions and Fees**

Retailers selling draw and Instant Game tickets receive a commission of 6% based on the total tickets sold. 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 gaming 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).

**(d) Accounts Receivable**

Accounts receivable primarily represents amounts due from retailers through a Lottery gaming contractor and amounts due from 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.

**(e) 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 are to be at least 20% for the New York State Lottery Instant Games, 35% for Take 5, Numbers, Win-4, Mega Millions, Powerball, and Pick 10, 45% for Lotto, Sweet Million, and promotional games, and 25% for Quick Draw. In addition, the Lottery has statutory authority to issue up to five 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,

## NEW YORK STATE LOTTERY

### Notes to Basic Financial Statements

March 31, 2013 and 2012

Mega Millions, Powerball, and Pick 10, 40% for Lotto, Sweet Million, and promotional games, and 60% for Quick Draw. In addition, the Lottery has statutory authority to issue up to five 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.

- 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, the video lottery administrative allocation does not include commissions and fees which are described separately in note 1c. Any excess of the maximum allocation over actual administrative expenses is allocated to education. Such allocations amounted to approximately \$433,097,000 and \$425,700,000 for fiscal years 2013 and 2012, respectively. Administrative expenses incurred by the Lottery represent telecommunications, advertising, salary and other operating costs.

#### *(f) 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 is used for the temporary investment of funds not required for immediate payments.

#### *(g) Investments*

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

#### *(h) 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, 2013 and 2012

**(i) 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, 2013 and 2012 (in thousands).

	2011	Additions	Deletions	2012	Additions	Deletions	2013
Leasehold improvements:							
Cost	\$ 4,526	—	—	4,526	—	—	4,526
Accumulated depreciation	(4,526)	—	—	(4,526)	—	—	(4,526)
Net value	—	—	—	—	—	—	—
Equipment:							
Cost	26,018	—	—	26,018	—	(23,996)	2,022
Accumulated depreciation	(24,298)	(1,677)	—	(25,975)	(38)	23,996	(2,017)
Net value	1,720	(1,677)	—	43	(38)	—	5
Total	\$ 1,720	(1,677)	—	43	(38)	—	5

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.

**(j) Prizes Payable**

Lotto, Powerball, and Mega Millions jackpot players have the option of selecting a lump sum payment or a long-term annuity payment. 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 investments. 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 position and made available for future prizes.

**(k) Unclaimed Prizes**

Unclaimed prizes at March 31, 2013 and 2012 were \$345,115,000 and \$335,110,000, respectively. Prizes unclaimed for one year after the drawing date (lapsed) are forfeited by the ticket holder. Total prizes lapsed amounted to approximately \$65,235,000 and \$72,659,000 for fiscal years 2013 and 2012, respectively. These forfeited prizes are netted against prize expense in the Statements of Revenue, Expense, and Changes in Net Position.

Under State Tax Law Section 1614, the Lottery retains forfeited prizes for supplemental prizes in subsequent lottery games. During the fiscal years 2013 and 2012, these supplemental prizes were

## NEW YORK STATE LOTTERY

### Notes to Basic Financial Statements

March 31, 2013 and 2012

used for Mega Millions, Powerball, Lotto, Quick Draw, Sweet Million, Take 5, and various Instant Games.

#### **(l) Restricted Net Position**

Restricted net position 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.

#### **(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.

### **(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 joint custody accounts included in cash and cash equivalents were \$437,229,000 and \$379,175,000 at March 31, 2013 and 2012, respectively.

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, 2013 and 2012, the amount of sole custody accounts included in cash and cash equivalents related to the sole custody accounts were \$7,608,000 and \$7,055,000, 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 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 the Office of the State Comptroller per State statute to invest prize funds which will provide for the payment of prizes payable (see note 4). The Lottery invests these funds in U.S. Government-backed obligations, New York City Transitional Finance Authority municipal bonds, and Agency for International Development Bonds which are guaranteed by the full faith and credit of the United States. The fair value of these investments at March 31, 2013 and 2012 was \$1,694,184,000 and \$1,584,726,000, respectively. During fiscal years 2013 and 2012, approximately \$44,832,000 and \$47,065,000, respectively, of amortized discount was included in investment income.

**NEW YORK STATE LOTTERY**

Notes to Basic Financial Statements

March 31, 2013 and 2012

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

	<u>2013</u>	<u>2012</u>
Maturity value	\$ 1,839,976	1,741,813
Unamortized discount	(399,042)	(372,746)
Total at amortized cost	1,440,934	1,369,067
Less investments, maturing within one year, at amortized cost	132,524	134,845
Long-term investments, at amortized cost	\$ <u>1,308,410</u>	<u>1,234,222</u>

Proceeds of the investments in each of the five fiscal years following March 31, 2013, and five year incremental totals thereafter, are as follows (in thousands):

	<u>Maturities</u>	<u>Interest due</u>	<u>Total</u>
2014	\$ 135,563	23,906	159,469
2015	124,584	23,622	148,206
2016	106,351	23,622	129,973
2017	93,503	23,622	117,125
2018	94,290	23,063	117,353
2019 – 2023	473,502	104,045	577,547
2024 – 2028	322,794	79,695	402,489
2029 – 2033	138,223	64,972	203,195
2034 – 2038	141,940	52,411	194,351
2039 – 2043	209,226	7,949	217,175
	\$ <u>1,839,976</u>	<u>426,907</u>	<u>2,266,883</u>

Credit risk is the risk that an issuer will not fulfill its obligations. The Lottery's policy is to follow State law which limits the investments that the Lottery can make and generally limit the Lottery's exposure to credit risk. The Lottery has generally limited its investments to obligations backed by the full faith of the U.S. government. Beginning in 2011, the Lottery held similarly rated New York City Transitional Finance Authority municipal bonds. The credit ratings of the Lottery's investments as published by Moody and Standard & Poors are included on the next page for those investments where credit ratings were available.

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.

**NEW YORK STATE LOTTERY**

Notes to Basic Financial Statements

March 31, 2013 and 2012

As of March 31, 2013 and 2012, the Lottery had the following investments and maturities (amounts in thousands):

Investment type	2013 Fair value	Moody Credit rating	S&P Credit rating	2013		
				Investment maturities		
				Less than five years	5 years to 10 years	More than 10 years
U.S. Treasury Strips	\$ 658,859	Aaa	N/A	\$ 224,156	218,244	404,182
New York City Transitional Finance Authority Bonds	547,349	Aa1	AAA	39,335	89,800	324,405
Agency for International Development Bonds	487,976	Aaa	AA+	290,800	165,457	83,597
Total	\$ 1,694,184			\$ 554,291	473,501	812,184

Investment type	2012 Fair value	Moody Credit rating	S&P Credit rating	2012		
				Investment maturities		
				Less than five years	5 years to 10 years	More than 10 years
U.S. Treasury Strips	\$ 506,041	Aaa	AAA	\$ 182,090	190,371	278,870
New York City Transitional Finance Authority Bonds	526,553	Aa1,Aa2	AAA	34,375	86,325	342,620
Agency for International Development Bonds	552,132	Aaa	AA+	346,398	163,055	117,709
Total	\$ 1,584,726			\$ 562,863	439,751	739,199

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 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.

**(4) Prizes Payable**

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

	2013	2012
Total obligation	\$ 2,343,003	2,374,146
Unamortized discount	(848,448)	(896,597)
Total carrying amount	1,494,555	1,477,549
Less prizes payable within one year	169,841	171,051
Long-term prizes payable	\$ 1,324,714	1,306,498

The amortized discount on the prizes payable is based on interest rates which range from 0.02% to 8.49% 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 Position and amounted to \$68,827,000 and \$71,160,000 for fiscal years 2013 and 2012, respectively.

**NEW YORK STATE LOTTERY**

Notes to Basic Financial Statements

March 31, 2013 and 2012

The aggregate amount of prizes payable due in each of the five fiscal years following March 31, 2013, and the five year incremental totals thereafter, is as follows (in thousands):

2014	\$ 162,892
2015	148,004
2016	132,632
2017	117,445
2018	118,150
2019 – 2023	583,770
2024 – 2028	413,601
2029 – 2033	225,729
2034 – 2038	127,184
2039 – 2043	97,799
2044 – 2048	79,647
2049 – 2053	56,899
thereafter	<u>79,251</u>
	<u>\$ 2,343,003</u>

**(5) Long-Term Liabilities**

The Lottery's long-term liabilities, as of March 31, 2013 and 2012 are comprised of the following (in thousands):

	<u>Balance at March 31, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at March 31, 2013</u>	<u>Current portion</u>
Compensated absences (note 11)	2,427	1,458	(1,990)	1,895	1,554
Prizes payable (note 4)	1,477,549	186,259	(169,253)	1,494,555	169,841
	<u>Balance at March 31, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at March 31, 2012</u>	<u>Current portion</u>
Capital lease obligations	\$ 1,810	—	(1,810)	—	—
Compensated absences (note 11)	1,829	1,928	(1,330)	2,427	1,765
Prizes payable (note 4)	1,430,410	217,816	(170,677)	1,477,549	171,051

**NEW YORK STATE LOTTERY**

Notes to Basic Financial Statements

March 31, 2013 and 2012

**(6) Aid to Education**

The required allocation and contribution transferred out for aid to education during the fiscal years ended March 31, 2013 and 2012 are as follows (in thousands):

	<u>2013</u>	<u>2012</u>
Cash transferred to education	\$ 3,052,979	2,883,980
Amount received from the State General Fund for Lottery Aid Guarantee	<u>(40,000)</u>	<u>(54,881)</u>
Net cash transferred to education	3,012,979	2,829,099
Prior year payable	(227,586)	(168,697)
Current year payable	<u>260,381</u>	<u>227,586</u>
Required allocation to education	\$ <u>3,045,774</u>	<u>2,887,988</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 12244.

The System provides retirement benefits as well as death and disability benefits. Retirement benefits are established by the New York State Retirement and Social Security Law. Vesting, retirement benefits, and contributory requirements depend upon the point in time at which an employee last joined the System. Most members of the System who joined before July 27, 1976 are enrolled in a noncontributory plan; the Lottery contributes the entire amount determined to be payable to the System. Personnel who joined the System on or after July 27, 1976 are required by law to contribute some percent of their gross salary for a specified number of 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 \$2,649,000 for 2013, \$2,447,000 for 2012 and \$2,677,000 for 2011, 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 13.14%, 12.03%, and 12.78% of covered payroll for each of the years, respectively.

**NEW YORK STATE LOTTERY**

Notes to Basic Financial Statements

March 31, 2013 and 2012

**(8) Operating Income**

Composition of operating income for fiscal 2013 and 2012 by type of lottery game is as follows (in thousands):

	2013					Net
	Expenses					
	Revenue	Prizes**	Commissions	Fees	Instant direct expense	
Mega Millions	\$ 254,432	(114,353)	(14,968)	(3,211)	—	121,900
Lotto	110,026	(34,318)	(6,069)	(1,319)	—	68,320
Take 5	266,031	(133,211)	(15,962)	(2,440)	—	114,418
Pick 10	30,103	(14,534)	(1,806)	(276)	—	13,487
Numbers	847,203	(394,894)	(50,832)	(7,879)	—	393,598
Win 4	793,543	(359,400)	(47,613)	(7,386)	—	379,144
Sweet Million	35,054	(17,625)	(2,103)	(322)	—	15,004
Powerball	468,404	(242,620)	(28,104)	(4,986)	—	192,694
Instants	3,724,194	(2,534,890)	(223,449)	(40,734)	(21,771)	903,350
Quick Draw	579,929	(374,147)	(34,796)	(6,359)	—	164,627
Total traditional lottery	7,108,919	(4,219,992)	(425,702)	(74,912)	(21,771)	2,366,542
Video gaming	1,825,369 *	1,004	(810,911)	(134,409)	—	881,053
	\$ <u>8,934,288</u>	<u>(4,218,988)</u>	<u>(1,236,613)</u>	<u>(209,321)</u>	<u>(21,771)</u>	3,247,595
Telecommunications						(20,954)
Other operating expenses						<u>(138,030)</u>
Total operating income						\$ <u>3,088,611</u>

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

Credits played	\$ 28,671,871
Credits won	<u>(26,846,502)</u>
Net machine income	\$ <u>1,825,369</u>

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

**NEW YORK STATE LOTTERY**

Notes to Basic Financial Statements

March 31, 2013 and 2012

	2012					
	Expenses					Net
	Revenue	Prizes**	Commissions	Fees	Instant direct expense	
Mega Millions	\$ 464,579	(223,747)	(27,592)	(5,380)	—	207,860
Lotto	122,272	(61,855)	(6,733)	(1,215)	—	52,469
Take 5	283,843	(142,727)	(17,030)	(2,600)	—	121,486
Pick 10	30,757	(14,068)	(1,845)	(282)	—	14,562
Numbers	880,536	(418,392)	(52,832)	(8,065)	—	401,247
Win 4	813,755	(381,956)	(48,825)	(7,454)	—	375,520
Sweet Million	39,398	(21,554)	(2,363)	(361)	—	15,120
Powerball	296,576	(142,275)	(17,815)	(3,182)	—	133,304
Instant	3,578,934	(2,405,555)	(214,736)	(35,231)	(25,194)	898,218
Quick Draw	502,039	(318,664)	(30,122)	(4,853)	—	148,400
Total traditional lottery	7,012,689	(4,130,793)	(419,893)	(68,623)	(25,194)	2,368,186
Video gaming	1,426,784 *	387	(617,065)	(105,081)	—	705,025
	\$ 8,439,473	(4,130,406)	(1,036,958)	(173,704)	(25,194)	3,073,211
Telecommunications						(20,330)
Other operating expenses						(129,760)
Total operating income						\$ 2,923,121

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

Credits played	\$ 19,546,897
Credits won	(18,120,113)
Net machine income	\$ 1,426,784

\*\* 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. In order to qualify, retirees must meet certain age requirements and minimum service periods that vary based on the time they last entered benefits-eligible service. Retirees generally contribute a percent of the cost of single and dependent coverage for health insurance benefits. The percent varies based on when the

## NEW YORK STATE LOTTERY

### Notes to Basic Financial Statements

March 31, 2013 and 2012

employee retired. The percent also varies based on salary grade for those retiring on or after January 1, 2012. The State covers 100% of the cost of single coverage for employees retired prior to January 1, 1983 who are enrolled in the Empire Plan or another plan of equal or lower cost. 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, 2013, NYSHIP provided health insurance coverage through the Empire Plan, an indemnity health insurance plan with managed care components; various 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.

At March 31, 2013 and 2012, the Lottery had between 148 and 144 retired and/or spouses of retired employees receiving these benefits with an annual pay-as-you-go cost of approximately \$1,334,000 and \$1,256,000, respectively.

#### **(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 \$1,895,000 and \$2,427,000 as of March 31, 2013 and 2012, respectively, and is recorded as a liability in the statements of net position.

#### **(12) Leases**

The Lottery has entered into operating leases for equipment and building space. Rental expense was approximately \$2,447,000 and \$2,446,000 in 2013 and 2012, respectively.

**NEW YORK STATE LOTTERY**

Notes to Basic Financial Statements

March 31, 2013 and 2012

Future minimum lease payments under all noncancelable leases having initial or remaining terms in excess of one year as of March 31, 2013 are as follows (in thousands):

	<u>Operating leases</u>	
2014	\$	2,174
2015		2,282
2016		1,918
2017		1,236
2018		1,234
2019 and thereafter		<u>1,997</u>
Total minimum payments required	\$	<u><u>10,841</u></u>

**(13) Commitments and Contingencies**

*(a) Contractual Arrangements*

The Lottery maintains a gaming network of approximately 17,000 retailer locations where all traditional lottery games are sold. Instant Game tickets are also sold through approximately 5,000 self-service terminals. GTECH Corporation (GTECH) is responsible for operating all traditional Lottery games, including maintenance of terminals and related communication services, under a contract expiring on August 5, 2017.

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

- (1) Under a contract that expires August 14, 2018 Scientific Games International is the primary supplier of Instant Game tickets.
- (2) Under a contract expiring August 23, 2018 Pollard Banknote Limited is an alternate supplier of Instant Game tickets.
- (3) Under a contract that expires on August 21, 2018 GTECH Printing Corporation is an alternate supplier of Instant Game tickets.

Video lottery games are offered on approximately 17,500 video gaming machines spread over nine video lottery gaming facilities. MGAM Systems, Inc. provides a central processing system for the operation of video lottery games under a contract expiring on December 31, 2017. Video lottery gaming machines are provided under contracts expiring December 31, 2017 with three different companies (Bally Gaming Inc., International Game Technology, and Spielo International USA, Inc.). These contracts are paid based on a contractual percentage of revenue, adjusted for units of service provided.

**NEW YORK STATE LOTTERY**

Notes to Basic Financial Statements

March 31, 2013 and 2012

**(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 Lottery debt and the capacity to pay for it.

### 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.

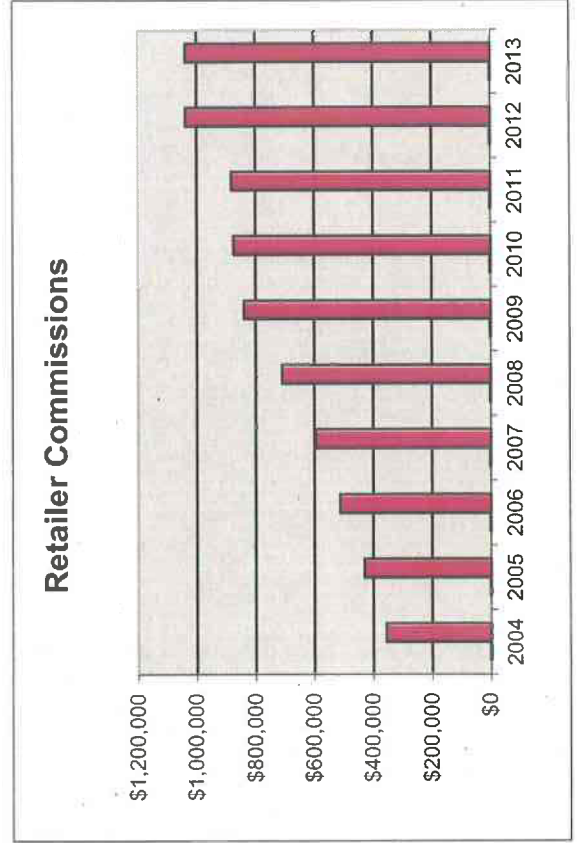
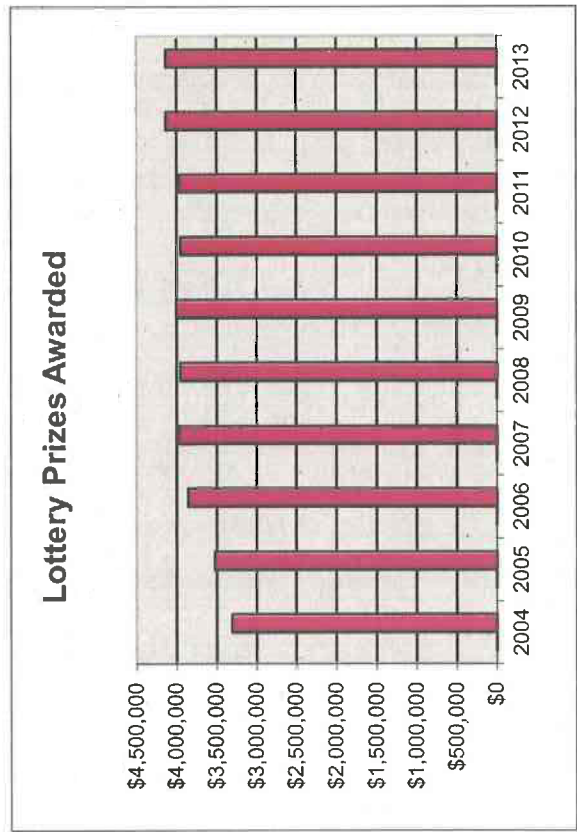
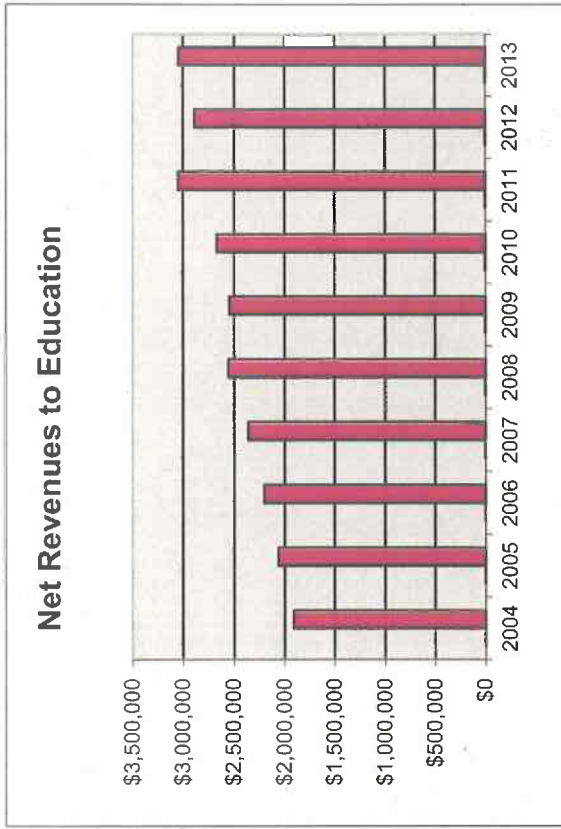
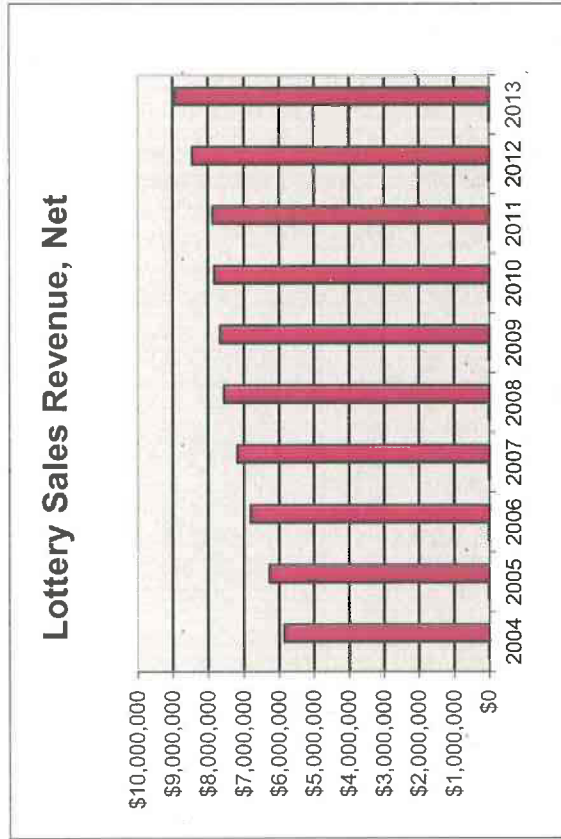
New York Lottery  
Net Position  
Most Recent 10 Fiscal Years  
(in thousands)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Net Position										
Investment in capital assets	\$ 11,687	\$ 20,534	\$ 8,635	\$ (152)	\$ (169)	\$ (77)	\$ 95	\$ (90)	\$ 43	\$ 5
Restricted for future prizes	141,935	150,905	130,129	103,815	110,008	72,026	79,119	104,894	140,965	184,824
Unrestricted	211,106	118,222	77,657	86,215	163,495	205,623	89,633	105,786	230,290	267,919
Total	<u>\$ 364,728</u>	<u>\$ 289,661</u>	<u>\$ 216,421</u>	<u>\$ 189,878</u>	<u>\$ 273,334</u>	<u>\$ 277,572</u>	<u>\$ 168,847</u>	<u>\$ 210,590</u>	<u>\$ 371,298</u>	<u>\$ 452,748</u>

New York Lottery  
Changes in Net Position  
Most Recent 10 Fiscal Years  
(in thousands)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Operating revenue	\$ 5,847,500	\$ 6,270,487	\$ 6,802,842	\$ 7,175,104	\$ 7,548,465	\$ 7,660,145	\$ 7,818,316	\$ 7,868,211	\$ 8,439,473	\$ 8,934,288
Lottery games revenue										
Operating expenses										
Prize expense	(3,306,335)	(3,523,530)	(3,853,270)	(3,970,739)	(3,952,761)	(4,003,267)	(3,951,226)	(3,967,672)	(4,130,406)	(4,218,988)
Retailer commissions	(335,656)	(429,182)	(511,059)	(595,348)	(708,514)	(839,312)	(875,430)	(881,923)	(1,036,958)	(1,236,613)
Gaming contractor fees	(61,511)	(78,008)	(88,028)	(100,554)	(120,887)	(126,479)	(133,587)	(143,254)	(173,704)	(209,321)
Instant ticket direct expenses	(32,511)	(31,174)	(32,091)	(28,095)	(28,160)	(32,755)	(28,575)	(26,145)	(25,194)	(21,771)
Telecommunications	(31,618)	(29,946)	(28,421)	(28,441)	(28,013)	(28,109)	(24,485)	(19,206)	(20,330)	(20,954)
Marketing and advertising expense	(88,931)	(70,705)	(74,686)	(83,813)	(81,756)	(80,947)	(86,414)	(92,141)	(85,825)	(89,995)
Personal service and fringe benefits	(21,985)	(24,934)	(25,481)	(27,023)	(28,606)	(31,227)	(30,663)	(31,324)	(31,020)	(30,244)
Other administrative costs	(10,570)	(10,801)	(11,015)	(13,279)	(12,189)	(11,678)	(11,362)	(11,049)	(9,620)	(16,295)
State Agency charges	(3,547)	(6,811)	(9,469)	(13,208)	(3,461)	(1,710)	(1,540)	(1,739)	(1,618)	(1,458)
Depreciation	(179)	(1,916)	(2,487)	(3,051)	(4,654)	(4,599)	(2,851)	(2,247)	(1,677)	(38)
Total operating expenses	(3,892,843)	(4,207,007)	(4,636,007)	(4,863,551)	(4,969,001)	(5,160,083)	(5,146,133)	(5,176,700)	(5,516,352)	(5,845,677)
Operating income	1,954,657	2,063,480	2,166,835	2,311,553	2,579,464	2,500,062	2,672,183	2,691,511	2,923,121	3,088,611
Nonoperating revenue (expenses)										
Investment income	83,626	14,957	47,179	102,316	175,035	123,909	(40,024)	90,928	196,965	107,719
Other revenues (expense), net	644	166	(143)	(566)	(40,104)	(271)	(298)	381,995	(230)	(279)
Investment expense, net	(100,102)	(90,968)	(84,492)	(80,206)	(74,804)	(75,512)	(74,205)	(73,537)	(71,160)	(68,827)
Total nonoperating revenue (expenses)	(15,832)	(75,845)	(37,456)	21,544	60,127	48,126	(114,527)	399,386	125,575	38,613
Income before required allocation	1,938,825	1,987,635	2,129,379	2,333,097	2,639,591	2,548,188	2,557,656	3,090,897	3,048,696	3,127,224
Required allocation for aid to education	(1,907,402)	(2,062,702)	(2,202,619)	(2,359,640)	(2,556,135)	(2,543,950)	(2,666,381)	(3,049,154)	(2,887,988)	(3,045,774)
Change in net position	\$ 31,423	\$ (75,067)	\$ (73,240)	\$ (26,543)	\$ 83,456	\$ 4,238	\$ (108,725)	\$ 41,743	\$ 160,708	\$ 81,450

New York Lottery  
Major Components of Lottery Revenue  
Most Recent 10 Fiscal Years  
(in thousands)



New York Lottery  
Revenue from Lottery Games Sales  
Most Recent 10 Fiscal Years  
(in thousands)

Games	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Draw Games:</b>										
Lotto	\$ 356,428	\$ 305,863	\$ 252,643	\$ 216,572	\$ 208,400	\$ 178,075	\$ 178,239	\$ 132,657	\$ 122,272	\$ 110,026
Take Five	363,106	348,179	335,533	326,775	319,809	328,431	306,332	283,217	283,843	266,031
Pick 10	34,111	33,764	32,527	31,874	32,220	32,033	32,234	30,498	30,757	30,103
New York Numbers	764,277	796,032	827,409	854,791	856,539	850,331	845,401	854,430	880,536	847,203
Win-4	599,237	629,543	662,574	702,550	718,522	740,163	765,648	776,579	813,755	793,543
Quick Draw	500,194	473,594	460,528	444,978	444,256	424,422	411,898	424,192	502,039	579,929
Promotional Games*	0	0	154,881	102,026	17,797	8,388	0	0	0	0
Sweet Million	0	0	0	0	0	0	35,583	45,008	39,398	35,054
Powerball	0	0	0	0	0	0	36,320	202,628	296,576	468,404
Mega Millions	474,432	446,205	563,151	454,910	481,636	467,141	558,167	463,049	464,579	254,432
Total Draw Games	3,091,785	3,033,180	3,289,246	3,134,476	3,079,179	3,028,984	3,170,022	3,212,258	3,433,755	3,384,725
Video Lottery**	21,776	231,718	315,701	522,668	875,281	965,074	1,037,248	1,109,562	1,426,784	1,825,369
Instant Cash Games	2,733,939	3,005,589	3,197,895	3,517,960	3,594,005	3,666,087	3,611,046	3,546,391	3,578,934	3,724,194
Total Sales	\$5,847,500	\$6,270,487	\$6,802,842	\$7,175,104	\$7,548,465	\$7,660,145	\$7,818,316	\$7,868,211	\$8,439,473	\$8,934,288

\*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**  
**Most Recent 10 Fiscal Years**  
(in thousands)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Operating Expenses</b>										
Prizes	\$3,306,335	\$3,523,530	\$3,853,270	\$3,970,739	\$3,952,761	\$4,003,267	\$3,951,226	\$3,967,672	\$4,130,406	\$4,218,988
Retailer comm./Contractor fees	417,167	507,190	599,087	695,902	829,401	965,791	1,009,017	1,025,177	1,210,662	1,445,934
Instant Ticket Costs	32,511	31,174	32,091	28,095	28,160	32,755	28,575	26,145	25,194	21,771
Administration	136,830	145,113	151,559	168,815	158,679	158,270	157,315	157,706	150,090	158,984
<b>Total Operating Expenses</b>	<b>\$3,892,843</b>	<b>\$4,207,007</b>	<b>\$4,636,007</b>	<b>\$4,863,551</b>	<b>\$4,969,001</b>	<b>\$5,160,083</b>	<b>\$5,146,133</b>	<b>\$5,176,700</b>	<b>\$5,516,352</b>	<b>\$5,845,677</b>
<b>Allocations to the State</b>	<b>\$1,907,402</b>	<b>\$2,062,702</b>	<b>\$2,202,619</b>	<b>\$2,359,640</b>	<b>\$2,556,135</b>	<b>\$2,543,950</b>	<b>\$2,666,381</b>	<b>\$3,049,154</b>	<b>\$2,887,988</b>	<b>\$3,045,774</b>

New York Lottery  
Outstanding Debt  
Most Recent 10 Fiscal Years  
(in thousands)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<u>Outstanding debt</u>										
Prizes payable	\$ 1,389,517	\$ 1,323,394	\$ 1,322,310	\$ 1,337,108	\$ 1,364,275	\$ 1,420,901	\$ 1,448,648	\$ 1,430,410	\$ 1,477,549	\$ 1,494,555
Unclaimed prizes	220,400	210,081	189,229	230,015	223,978	189,248	281,482	325,013	335,110	345,115
Due to education	180,324	150,289	388,920	303,436	175,735	175,714	139,385	168,697	227,586	260,381
Accounts payable/accrued liabilities	33,223	24,536	17,217	57,796	27,004	20,718	12,800	169,903	25,150	25,844
Deferred ticket sales	9,502	9,796	9,133	9,251	14,688	12,301	11,239	11,808	9,602	8,352
Compensated absences	5,263	5,566	4,840	1,451	1,507	1,588	1,846	1,829	2,427	1,895
Capital leases	4,281	9,986	7,710	16,005	11,426	6,895	3,872	1,810	-	-
Total outstanding debt	1,843,010	1,733,648	1,939,359	1,955,062	1,818,613	1,827,365	1,899,272	2,109,470	2,077,424	2,136,142

<u>Resources available to pay outstanding debt</u>										
Cash	\$ 272,594	\$ 173,901	\$ 331,317	\$ 375,220	\$ 105,361	\$ 43,947	\$ 153,220	\$ 230,468	\$ 386,230	\$ 444,837
Accounts receivable	343,234	390,806	451,198	481,329	472,367	480,213	417,233	598,435	469,732	441,486
Investments	1,579,069	1,436,617	1,355,015	1,260,419	1,492,973	1,561,529	1,483,903	1,478,595	1,584,726	1,694,184
Total resources available for debt	2,194,897	2,001,324	2,137,530	2,116,968	2,070,701	2,085,689	2,054,356	2,307,498	2,440,688	2,580,507

Ratio of debt to available resources 84% 87% 91% 92% 88% 92% 91% 85% 83%

**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>		
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%
2008	19,490,000	0.99%	\$ 937,010	\$ 48,076	1.46%	4.9%
2009	19,541,000	0.26%	\$ 917,610	\$ 46,958	-2.33%	8.1%
2010	19,378,000	-0.83%	\$ 946,054	\$ 48,821	3.97%	8.3%
2011	19,465,000	0.45%	\$ 983,868	\$ 50,545	3.53%	7.8%

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**  
most recent ten years available

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Private employment</b>										
Forestry, fishing, etc.	23,689	24,455	22,684	23,280	23,271	23,707	23,744	14,341	14,274	13,574
Mining	9,876	8,733	10,022	9,516	9,866	9,959	10,675	14,286	16,157	13,474
Utilities	43,796	43,301	42,213	40,623	40,651	40,506	40,119	40,355	41,026	39,746
Construction	462,822	449,250	456,704	467,615	483,981	508,530	527,531	533,932	481,531	460,003
Manufacturing	734,909	680,268	642,125	626,157	612,145	598,993	584,955	565,032	501,685	488,760
Wholesale trade	399,253	387,074	384,490	389,951	391,525	394,772	397,410	390,550	368,081	362,207
Retail trade	1,026,415	1,022,037	1,025,356	1,039,785	1,058,146	1,065,731	1,073,776	1,066,636	1,017,181	1,037,002
Transportation, warehouse	324,632	311,291	309,902	317,870	327,069	337,573	334,622	346,712	324,256	319,556
Information	358,650	325,881	308,447	305,139	310,275	312,293	302,404	301,954	292,108	288,921
Finance, insurance	726,286	698,378	688,840	696,548	711,845	733,599	731,480	789,048	785,910	813,265
Real estate, rental, leasing	358,530	361,098	380,434	407,062	436,758	466,261	470,170	565,276	523,673	525,680
Professional, technical	798,205	782,981	794,919	823,816	835,753	866,101	869,279	900,523	857,138	836,836
Management	122,454	127,630	126,239	125,968	130,060	135,334	137,157	139,224	139,298	145,749
Administrative, waste services	523,064	511,429	513,021	529,832	537,833	539,449	559,928	567,179	526,294	547,991
Education	339,070	350,635	363,734	376,935	388,285	401,273	405,562	412,051	414,554	426,934
Health care, social assistance	1,322,903	1,358,742	1,400,504	1,421,958	1,440,752	1,466,699	1,483,772	1,500,582	1,507,891	1,532,549
Arts, entertainment, recreation	258,204	268,588	270,871	283,129	287,510	295,198	299,929	320,716	316,950	313,381
Accommodation, food service	554,968	558,728	572,337	583,087	591,426	598,360	616,162	628,012	628,254	652,705
Other services	558,911	578,888	584,642	588,524	591,172	605,482	609,995	612,489	596,445	592,029
<b>Total</b>	<b>8,946,637</b>	<b>8,849,377</b>	<b>8,897,484</b>	<b>9,056,795</b>	<b>9,208,323</b>	<b>9,399,820</b>	<b>9,478,570</b>	<b>9,708,898</b>	<b>9,352,706</b>	<b>9,410,362</b>
<b>Government employment</b>										
Federal, civilian	134,377	133,580	135,408	130,490	128,925	127,015	127,046	127,037	127,052	132,803
Military	57,973	57,603	57,140	56,362	56,257	57,590	57,087	59,940	60,058	60,269
State	251,702	253,528	250,308	249,034	247,293	246,101	247,038	250,133	246,748	242,306
Local	1,040,677	1,061,115	1,059,876	1,063,024	1,068,446	1,069,467	1,079,349	1,091,269	1,091,970	1,082,820
<b>Total</b>	<b>1,484,729</b>	<b>1,505,826</b>	<b>1,502,732</b>	<b>1,498,910</b>	<b>1,500,921</b>	<b>1,500,173</b>	<b>1,510,520</b>	<b>1,528,379</b>	<b>1,525,828</b>	<b>1,518,198</b>
<b>Total nonfarm employment</b>	<b>10,431,366</b>	<b>10,355,203</b>	<b>10,400,216</b>	<b>10,555,705</b>	<b>10,709,244</b>	<b>10,899,993</b>	<b>10,989,090</b>	<b>11,237,277</b>	<b>10,878,534</b>	<b>10,928,560</b>
<b>Total farm employment</b>	<b>59,730</b>	<b>59,916</b>	<b>59,641</b>	<b>54,827</b>	<b>54,243</b>	<b>52,102</b>	<b>50,784</b>	<b>51,724</b>	<b>51,219</b>	<b>50,628</b>
<b>Total employment</b>	<b>10,491,096</b>	<b>10,415,119</b>	<b>10,459,857</b>	<b>10,610,532</b>	<b>10,763,487</b>	<b>10,952,095</b>	<b>11,039,874</b>	<b>11,289,001</b>	<b>10,929,753</b>	<b>10,979,188</b>

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

**New York Lottery  
Operating Information  
Most Recent 10 Fiscal Years  
(all dollars in thousands)**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<b><u>Draw Games</u></b>										
Sales	\$ 3,091,785	\$ 3,033,180	\$ 3,289,246	\$ 3,134,476	\$ 3,079,179	\$ 3,028,984	\$ 3,170,022	\$ 3,212,258	\$ 3,433,755	\$ 3,384,725
Prizes	\$ 1,507,863	\$ 1,539,996	\$ 1,741,777	\$ 1,634,152	\$ 1,554,302	\$ 1,544,341	\$ 1,582,169	\$ 1,602,202	\$ 1,725,238	\$ 1,685,102
Percent of sales	49%	51%	53%	52%	50%	51%	50%	50%	50%	50%
Retailer commissions	\$ 184,640	\$ 181,413	\$ 186,857	\$ 187,066	\$ 183,961	\$ 180,685	\$ 189,204	\$ 191,876	\$ 205,157	\$ 202,253
Percent of sales	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%
Contractor fees	\$ 39,531	\$ 38,782	\$ 41,351	\$ 39,660	\$ 39,378	\$ 38,691	\$ 39,224	\$ 30,260	\$ 33,392	\$ 34,178
Percent of sales	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
<b><u>Instant Games</u></b>										
Sales	\$ 2,733,939	\$ 3,005,589	\$ 3,197,895	\$ 3,517,960	\$ 3,594,005	\$ 3,666,087	\$ 3,611,046	\$ 3,546,391	\$ 3,578,934	\$ 3,724,194
Prizes	\$ 1,798,472	\$ 1,983,561	\$ 2,111,635	\$ 2,336,626	\$ 2,398,636	\$ 2,459,439	\$ 2,369,845	\$ 2,365,847	\$ 2,405,555	\$ 2,534,890
Percent of sales	66%	66%	66%	66%	67%	67%	66%	67%	67%	68%
Retailer commissions	\$ 164,701	\$ 180,571	\$ 192,094	\$ 211,370	\$ 216,830	\$ 219,974	\$ 216,664	\$ 212,781	\$ 214,736	\$ 223,449
Percent of sales	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%
Contractor fees	\$ 20,317	\$ 22,336	\$ 23,848	\$ 26,221	\$ 26,809	\$ 27,386	\$ 27,505	\$ 32,466	\$ 35,231	\$ 40,734
Percent of sales	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Ticket and related costs	\$ 32,511	\$ 31,174	\$ 32,091	\$ 28,095	\$ 28,160	\$ 32,755	\$ 28,575	\$ 26,145	\$ 25,194	\$ 21,771
Percent of sales	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
<b><u>Video</u></b>										
Sales (net machine income)	\$ 21,776	\$ 231,718	\$ 315,701	\$ 522,668	\$ 875,281	\$ 965,074	\$ 1,037,248	\$ 1,109,562	\$ 1,426,784	\$ 1,825,369
Facility commissions	\$ 6,315	\$ 67,198	\$ 122,108	\$ 196,912	\$ 307,723	\$ 438,653	\$ 469,562	\$ 477,266	\$ 617,065	\$ 810,911
Percent of sales	29%	29%	39%	38%	35%	45%	45%	43%	43%	44%
Contractor fees	\$ 1,663	\$ 16,890	\$ 22,829	\$ 34,673	\$ 54,700	\$ 60,402	\$ 66,858	\$ 80,528	\$ 105,081	\$ 134,409
Percent of sales	8%	7%	7%	7%	6%	6%	6%	7%	7%	7%
<b><u>All Games</u></b>										
Sales	\$ 5,847,500	\$ 6,270,487	\$ 6,802,842	\$ 7,175,104	\$ 7,548,465	\$ 7,660,145	\$ 7,818,316	\$ 7,868,211	\$ 8,439,473	\$ 8,934,288
Administrative costs	\$ 136,830	\$ 145,113	\$ 151,559	\$ 168,815	\$ 158,679	\$ 158,270	\$ 157,315	\$ 157,706	\$ 150,090	\$ 158,984
Percent of sales	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
<b>Number of Employees</b>	329	335	333	334	342	359	351	333	331	311
<b>Number of Retailers</b>	15,000	16,000	16,000	16,000	16,100	16,500	16,700	16,553	16,806	17,000

**New York Lottery  
Capital Assets  
Most Recent 10 Fiscal Years**

	<u>Leasehold improvements</u>			<u>Equipment</u>		
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Value</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Value</u>
2004	\$ 4,526,000	\$ 4,526,000	\$ -	\$ 6,990,000	\$ 2,493,000	\$ 4,497,000
2005	\$ 4,526,000	\$ 4,526,000	\$ -	\$ 14,598,000	\$ 4,409,000	\$ 10,189,000
2006	\$ 4,526,000	\$ 4,526,000	\$ -	\$ 14,963,000	\$ 6,896,000	\$ 8,067,000
2007	\$ 4,526,000	\$ 4,526,000	\$ -	\$ 25,800,000	\$ 9,947,000	\$ 15,853,000
2008	\$ 4,526,000	\$ 4,526,000	\$ -	\$ 25,858,000	\$ 14,601,000	\$ 11,257,000
2009	\$ 4,526,000	\$ 4,526,000	\$ -	\$ 26,018,000	\$ 19,200,000	\$ 6,818,000
2010	\$ 4,526,000	\$ 4,526,000	\$ -	\$ 26,018,000	\$ 22,051,000	\$ 3,967,000
2011	\$ 4,526,000	\$ 4,526,000	\$ -	\$ 26,018,000	\$ 24,298,000	\$ 1,720,000
2012	\$ 4,526,000	\$ 4,526,000	\$ -	\$ 26,018,000	\$ 25,975,000	\$ 43,000
2013	\$ 4,526,000	\$ 4,526,000	\$ -	\$ 2,022,000	\$ 2,017,000	\$ 5,000

Note: In 2013, ownership of video gaming surveillance equipment passed from the Lottery to the gaming facilities. The cost of the equipment was \$23,996,000 and it was fully depreciated.