

NEW YORK STATE LOTTERY

FINANCIAL STATEMENTS
AND SUPPLEMENTARY FINANCIAL INFORMATION
(AND REPORT OF INDEPENDENT ACCOUNTANTS)

For the Years Ended March 31, 1992 and 1991

Gooders
& Lybrand

Chartered Accountants

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REPORT OF INDEPENDENT ACCOUNTANTS

New York State Lottery

We have audited the accompanying statements of assets and liabilities of the New York State Lottery as of March 31, 1992 and 1991, and the related statements of revenues and expenses and cash flows for the years then ended. These financial statements are the responsibility of the management of the New York State Lottery. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and liabilities of the New York State Lottery as of March 31, 1992 and 1991, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Coopers + Lybrand

Albany, New York
May 29, 1992

NEW YORK STATE LOTTERY

STATEMENTS OF ASSETS AND LIABILITIES March 31, 1992 and 1991 (In Thousands)

	<u>1992</u>	<u>1991</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 98,571	\$ 104,781
Accounts receivable	44,025	35,797
Investments, at amortized cost	<u>131,507</u>	<u>119,047</u>
Total current assets	274,103	259,625
Long-term investments, at amortized cost	1,021,746	924,592
Equipment and leasehold improvements, net of accumulated depreciation and amortization	<u>9,002</u>	<u>4,597</u>
Total assets	<u>\$1,304,851</u>	<u>\$1,188,814</u>
 <u>LIABILITIES</u>		
Current liabilities:		
Prizes payable	\$ 131,731	\$ 117,111
Unclaimed and future prizes	76,991	96,958
Due to education	29,889	8,137
Due to administration	12,026	4,622
Other payables	<u>18,464</u>	<u>21,997</u>
Total current liabilities	269,101	248,825
Long-term prizes payable	1,035,750	939,989
Commitments and contingencies (Note 10)	<u> </u>	<u> </u>
Total liabilities	<u>\$1,304,851</u>	<u>\$1,188,814</u>

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

NEW YORK STATE LOTTERY

STATEMENTS OF REVENUES AND EXPENSES
For the Years Ended March 31, 1992 and 1991
(In Thousands)

	<u>1992</u>	<u>1991</u>
Ticket sales	\$2,063,069	\$2,134,644
Less:		
Prizes	(968,708)	(949,816)
Agent commissions	(123,827)	(128,104)
Contractor fees	<u>(58,259)</u>	<u>(57,122)</u>
Gross profit on ticket sales	912,275	999,602
General and administrative expenses	<u>54,320</u>	<u>55,044</u>
Income from operations	<u>857,955</u>	<u>944,558</u>
Nonoperating revenues (expenses):		
Interest income	105,809	105,924
Interest expense - amortization of discount on prizes payable	(97,663)	(94,648)
Other, net	<u>576</u>	<u>1,744</u>
Total nonoperating revenues (expenses)	<u>8,722</u>	<u>13,020</u>
Income earned and required allocation to education	<u>\$ 866,677</u>	<u>\$ 957,578</u>
Components of Income earned and required allocation to education:		
New York State	\$ 865,153	\$ 957,578
New York City	<u>1,524</u>	<u> </u>
	<u>\$ 866,677</u>	<u>\$ 957,578</u>

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

NEW YORK STATE LOTTERY

STATEMENTS OF CASH FLOWS For the Years Ended March 31, 1992 and 1991 Increase (Decrease) in Cash and Cash Equivalents (In Thousands)

	<u>1992</u>	<u>1991</u>
Cash flows from operating activities:		
Cash received from ticket sales	\$2,054,521	\$2,113,851
Cash payments for prizes	(976,631)	(893,236)
Cash payments for commissions and fees	(182,105)	(182,091)
Cash payments for general and administrative expenses	(44,330)	(58,763)
Net cash provided by operating activities	<u>851,455</u>	<u>979,761</u>
Cash flows from noncapital financing activities:		
Cash transfer to education	(844,925)	(940,011)
Cash flows from capital and related financing activities:		
Cash payments for equipment and leasehold improvements	(3,310)	—
Principal payments on capital lease	(842)	—
Net cash used in capital and related financing activities	<u>(4,152)</u>	—
Cash flows from investing activities:		
Proceeds from investment maturities	124,596	106,675
Proceeds from sale of investments	5,951	2,160
Purchases of investments	(147,277)	(162,418)
Interest on cash and cash equivalents	7,581	11,449
Other cash payments and receipts, net	561	1,788
Net cash used in investing activities	<u>(8,588)</u>	<u>(40,346)</u>
Net decrease in cash and cash equivalents	(6,210)	(596)
Cash and cash equivalents, beginning of year	<u>104,781</u>	<u>105,377</u>
Cash and cash equivalents, end of year	<u>\$ 98,571</u>	<u>\$ 104,781</u>
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ 857,955	\$ 944,558
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization	1,012	217
Changes in assets and liabilities affecting income from operations:		
Accounts receivable	(8,522)	(7,341)
Prizes payable	13,062	72,404
Unclaimed and future prizes	(19,967)	(26,375)
Due to administration	7,405	(3,936)
Other payables	510	234
Net cash provided by operating activities	<u>\$ 851,455</u>	<u>\$ 979,761</u>

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

NEW YORK STATE LOTTERY
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

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

The Lottery is included within the financial reporting entity of the State of New York. Within the General Purpose Financial Statements of the State of New York, the Lottery is accounted for within two funds. The revenues and expenditures for administration, aid to education and prizes are reported in a Special Revenue Fund. Monies for prizes are transferred to a Lottery Agency Fund for payment of prizes as claims are filed. The accompanying financial statements include the accounts of both funds and are presented as an enterprise fund. The accounting policies of the Lottery conform in all material respects to generally accepted accounting principles whereby revenue is recognized when earned and expenses are recognized when incurred.

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

Revenue Recognition

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

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

Revenue from Lotto, Cash 40, Take 5, Pick 10, Daily Numbers and Win-Four games is reported at the dollar value of all tickets sold. Revenue from ticket sales includes subscription sales and other ticket sales for future drawings of approximately \$10,636,000 and \$8,952,000 for fiscal years 1992 and 1991, respectively.

On January 17, 1992, the Lottery replaced Cash 40 with Take 5, a game with similar features.

Commissions and Fees

Agents receive a commission of six percent based on the total tickets sold. Contractors receive a fee equal to a contractual percentage of the revenues generated through the respective network maintained by each contractor (see Note 10).

Allocation of Revenue from Ticket Sales

The allocation of ticket sales is made in accordance with the provisions of the New York State Lottery for Education Law which requires:

- allocations of ticket sales revenue to New York State for educational purposes to be at least 30 percent for the New York State Lottery scratch-off games, 35 percent for Daily Numbers, Win-Four and Pick 10, and 45 percent for Lotto, Cash 40, and Take 5. During fiscal year 1992, legislation was passed changing the allocation of ticket sales revenue to education from 35 percent to 30 percent for scratch-off games and from 45 percent to 35 percent for Pick 10.

NEW YORK STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS, Continued

1. Summary of Significant Accounting Policies, Continued

Allocation of Revenue from Ticket Sales, continued

- allocations of ticket sales revenue to New York City for educational purposes to be at least 35 percent for the New York City scratch-off games, less any reimbursement to the Lottery for shortfalls in net revenue, as defined.
- allocations of ticket sales revenue for the payment of lottery prizes not to exceed 55 percent for the New York State Lottery scratch-off games, 50 percent for the Daily Numbers, Win-Four, Pick 10 and the New York City scratch-off games, and 40 percent for Lotto, Cash 40, and Take 5. During fiscal year 1992, legislation was passed changing the allocation of ticket sales revenue to prizes from 50 percent to 55 percent for scratch-off games and from 40 percent to 50 percent for Pick 10.
- allocations of ticket sales revenue from all games for the payment of lottery administration expenses (including agent commissions and contractors' fees) not to exceed 15 percent. Any excess of the maximum allocation over administration expenses is allocated to education. Such allocations amounted to approximately \$74,995,000 and \$84,971,000 for fiscal years 1992 and 1991, respectively. Administration expenses incurred by the Lottery represent telecommunications, advertising, salary and other operating costs and include an accrual for expenses to be paid after the fiscal year-end.

Cash Equivalents

For purposes of the statements of cash flows, the Lottery considers cash equivalents to be amounts held with banks and amounts held under the joint custody of the Lottery and the Office of the State Comptroller of the State of New York through the Short-term Investment Pool, which is used for the temporary investment of funds not required for immediate payments.

Investments

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

Equipment and Leasehold Improvements

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

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

Prizes Payable

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

NEW YORK STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS, Continued

1. Summary of Significant Accounting Policies, Continued

Unclaimed and Future Prizes

Prizes unclaimed for one year after the drawing date are forfeited by the ticket holder. Total prizes unclaimed amounted to approximately \$36,886,000 and \$28,663,000 for fiscal years 1992 and 1991, respectively.

Legislation passed in June 1991 allows the Lottery to retain unclaimed prizes and to use such amounts for payment of supplemental prizes in subsequent Lottery games. During fiscal year 1992, such supplemental prizes were paid for Lotto and Take 5. Prior to this legislation, unclaimed prizes were allocated to education. Such allocations amounted to approximately \$6,515,000 and \$28,663,000 for fiscal years 1992 and 1991, respectively.

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

2. Cash and Cash Equivalents

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

Lottery sales receipts are allocated and deposited in investment fund accounts for prizes, education and administration under the joint custody of the Lottery and the Office of the State Comptroller of the State of New York. The accounts for prizes and administration earn interest through participation in a short-term investment pool administered by the State Comptroller. The carrying and market value of the accounts included in cash and cash equivalents were \$91,408,000 and \$92,200,000 at March 31, 1992 and 1991, respectively. Interest income earned in each investment account is used for the specific purpose and benefit of that account.

The Lottery also maintains sole custody accounts which are used for daily cash management purposes. Amounts of cash balances included in cash and cash equivalents related to sole custody accounts were \$7,163,000 and \$12,581,000 for fiscal years 1992 and 1991, respectively.

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

NEW YORK STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS, Continued

3. Investments

The Lottery is authorized to invest in U.S. Government-backed obligations (zero coupon bonds and stripped Government securities), which will provide for the payment of prizes payable (see Note 5). During fiscal years 1992 and 1991, approximately \$98,525,000 and \$94,923,000, respectively, of amortized discount was included in interest income.

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

	<u>1992</u>	<u>1991</u>
Maturity value	\$2,194,074	\$2,043,222
Less unamortized discount	<u>1,040,821</u>	<u>999,583</u>
Total carrying value	1,153,253	1,043,639
Less: investments, maturing within one year	<u>131,507</u>	<u>119,047</u>
Long-term Investments	<u>\$1,021,746</u>	<u>\$ 924,592</u>
Total market value	<u>\$1,258,323</u>	<u>\$1,115,751</u>

Maturities of the investments in each of the five fiscal years following March 31, 1992, and the total thereafter, are as follows (in thousands):

1993	\$ 136,715
1994	136,232
1995	136,980
1996	136,984
1997	136,973
1998 and thereafter	<u>1,510,190</u>
	<u>\$2,194,074</u>

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

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

4. Equipment and Leasehold Improvements

Equipment and leasehold improvements as of March 31, 1992 and 1991 are as follows:

	<u>1992</u>	<u>1991</u>
Equipment (principally a capital lease)	\$ 5,804,512	\$ 4,914,495
Leasehold improvements	<u>4,526,017</u>	<u>4,914,495</u>
	10,330,529	9,828,990
Less: accumulated depreciation and amortization	<u>(1,328,915)</u>	<u>(317,200)</u>
Equipment and leasehold improvements, net	<u>\$ 9,001,614</u>	<u>\$ 4,597,295</u>

NEW YORK STATE LOTTERY
 NOTES TO FINANCIAL STATEMENTS, Continued

4. Equipment and Leasehold Improvements, Continued

During fiscal 1991, the Lottery entered into a \$4,700,000 capital lease for new computer equipment. The lease is for a five-year term and requires ten semi-annual payments approximating \$573,000 each, through March 1996. Accumulated amortization for the equipment recorded under the capital lease approximated \$1,086,000 and \$217,000 for fiscal years 1992 and 1991, respectively.

5. Prizes Payable

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

	<u>1992</u>	<u>1991</u>
Total obligation	\$2,203,978	\$2,052,572
Less unamortized discount	<u>1,036,497</u>	<u>995,472</u>
Total carrying amount	1,167,481	1,057,100
Less: prize payable within one year	<u>131,731</u>	<u>117,111</u>
Long-term prizes payable	<u>\$1,035,750</u>	<u>\$ 939,989</u>

The amortized discount on the prizes payable is based on interest rates which range from 4.16 percent to 13.55 percent and reflect the interest rates earned by the investments held to fund the related liabilities. The amortization of discount is recorded as interest expense in the statements of revenues and expenses and amounted to \$97,663,000 and \$94,648,000 for the fiscal years 1992 and 1991, respectively.

The aggregate amount of prizes payable due in each of the five fiscal years following March 31, 1992, and the total thereafter, is as follows (in thousands):

1993	\$ 136,814
1994	136,714
1995	136,604
1996	136,604
1997	136,604
1998 and thereafter	<u>1,520,638</u>
	<u>\$2,203,978</u>

NEW YORK STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS, Continued

6. Operating Segment Information

Operating segment information for fiscal 1992 and 1991 by type of lottery game is as follows (in thousands):

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

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

	1991				
	Ticket Sales	Prizes	Agent Commissions	Contractor Fees	Gross Profit On Ticket Sales
Lotto	\$ 771,815	(\$ 293,945)	(\$ 46,308)	(\$ 13,369)	\$ 418,193
Cash 40	79,513	30,239	4,771	1,469	43,034
Pick 10	119,065	45,964	7,169	2,234	63,698
Daily Numbers	615,543	306,309	36,933	11,404	260,897
Win-Four	286,747	141,536	17,205	5,332	122,674
Scratch-off Games	261,961	131,823	15,718	23,314	91,106
	<u>\$2,134,644</u>	<u>(\$ 949,816)</u>	<u>(\$ 128,104)</u>	<u>(\$ 57,122)</u>	999,602
General and administrative expenses					(55,044)
Nonoperating revenues (expenses)					<u>13,020</u>
Income earned and required allocation to education					<u>\$ 957,578</u>

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

During 1991 such supplements included increasing the statutory prize payout for the Pick 10 and Scratch-Off games by 10% and 5%, respectively as well as a one-time special "Super Lotto." During 1992, legislation changed the statutory prize allocation for the Pick 10 and Scratch-Off games (see Note 1).

NEW YORK STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS, Continued

7. Education

Income earned and required allocation to education during the fiscal years ended March 31, 1992 and 1991 are as follows:

	<u>1992</u>	<u>1991</u>
Revenue transferred to education	\$ 844,925	\$ 940,011
Prior year (payable) overtransfer	(8,137)	<u>9,430</u>
Amount transferred from current year revenue	836,788	949,441
Current year payable	<u>29,889</u>	<u>8,137</u>
Income earned and required allocation to education	<u>\$ 866,677</u>	<u>\$ 957,578</u>

8. Defined Benefit Pension Plan

Substantially all Lottery employees participate in the New York State Employees' Retirement System ("the System"), a cost-sharing multiple-employer public employee retirement system. The payroll for Lottery employees covered by the system for the year ended March 31, 1992 was approximately \$7,734,000; the Lottery's total payroll was approximately \$7,898,000.

The System provides retirement benefits as well as death and disability benefits. All benefits vest after 10 years of credited service. Retirement benefits that employees are entitled to are established by New York State law and are dependent upon the point in time at which the employee last joined the System. These retirement plans have both contributory and noncontributory requirements depending upon the point at which an employee last joined the System. Most members of the System who joined before July 27, 1976 are enrolled in a noncontributory plan and may retire at age 55. Employees who last joined the System on or after July 27, 1976 are enrolled in a contributory plan which requires a 3% contribution of their salary and may retire at age 62. A public employee who joined the System on or after July 27, 1976 and leaves covered employment before 10 years of credited service may obtain a refund including interest of the accumulated employee contributions. Members, benefits, and employer and employee obligations to contribute are described in the New York State Retirement and Social Security Law. The number of members and benefit recipients of the System as of March 31, 1991 (1992 plan data is not available) totaled approximately 823,012, including 256,302 retirees and beneficiaries currently receiving benefits and no longer working members entitled to benefits but not yet receiving them; 72,160 nonvested inactive members, and 494,550 current working members.

The contribution requirement for the year ended March 31, 1992 was \$303,127, which consisted of \$154,807 from the Lottery and \$148,320 from employees; these contributions represented 2.0% and 1.9% of covered payroll, respectively.

The contribution requirement for the year ended March 31, 1991 was \$640,839, which consisted of \$503,408 from the Lottery and \$137,431 from employees; these contributions represented 6.8% and 1.9% of covered payroll, respectively.

NEW YORK STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS, Continued

8. Defined Benefit Pension Plan, Continued

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems and employers. The System does not make separate measurements of assets and pension benefit obligation for individual employers. The pension benefit obligation at March 31, 1991 for the System as a whole, determined through an actuarial valuation performed as of that date, was \$40,080,000,000. The System's net assets available for benefits on that date (valued at market) were \$42,915,000,000 resulting in assets in excess of pension benefit obligation of \$2,835,000,000. The Lottery's 1991 contribution represented .4 percent of total contributions required of all participating entities.

Ten-year historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's March 31, 1991 annual financial report.

9. Deferred Compensation

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

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

10. Commitments and Contingencies

Contractual arrangements:

The New York State Lottery maintains two parallel on-line gaming networks, each comprised of several thousand agent terminals. The Lottery contracts the operations of such networks with two contractors, GTECH Corporation (GTECH) and Control Data Corporation (CDC). The GTECH contract is for a term of approximately five years expiring December 31, 1992, and the CDC contract is for a term of six years expiring September 1, 1993. The New York State Lottery also contracts the operations of the scratch-off games with Scientific Games, Inc. This contract is for a term of two years expiring January 13, 1994. Contractor fees are based on a percentage of ticket sales as defined in the respective contracts.

NEW YORK STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS, Continued

10. Commitments and Contingencies, Continued

Insurance Contracts:

Prior to 1983, the Lottery had entered into agreements with New York Insurance companies under which the Lottery purchased annuities and funding agreements under contracts that provide payments corresponding to the Lottery's obligation to the prize winners. Because it is the intent of the Lottery that the insurance companies make future installment payments directly to each prize winner, neither the present value of the annuities and funding agreements nor the present value of the related future payments are reflected in the accompanying financial statements. The Lottery may be liable for such future payments if the insurance companies were to default on their payments. Unpaid amounts under these arrangements approximated \$118,000,000 at March 31, 1992.

Litigation:

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

Federal Communications Commission (FCC) ruling:

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

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

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

REPORT OF INDEPENDENT ACCOUNTANTS
ON THE SUPPLEMENTARY FINANCIAL INFORMATION

New York State Lottery

Our report on the audit of the financial statements of the New York State Lottery as of March 31, 1992 and for the year then ended appears on page 1. The audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary financial information included on pages 15 and 16 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Coopers & Lybrand

Albany, New York
May 29, 1992

NEW YORK STATE LOTTERY

COMBINING SCHEDULE OF ASSETS AND LIABILITIES
 March 31, 1992
 (In Thousands)

	<u>All Other Games</u>	<u>City Games</u>	<u>Eliminations</u>	<u>Combined Total</u>
<u>ASSETS</u>				
Current assets:				
Cash and cash equivalents	\$ 98,083	\$ 488	\$	\$ 98,571
Accounts receivable	43,760	341	(76)	44,025
Investments, at amortized cost	<u>131,507</u>	<u> </u>	<u> </u>	<u>131,507</u>
Total current assets	273,350	829	(76)	274,103
Long-term investments, at amortized cost	1,021,746			1,021,746
Equipment and leasehold improvements, net of accumulated depreciation and amortization	<u>9,002</u>	<u> </u>	<u> </u>	<u>9,002</u>
Total assets	<u>\$1,304,098</u>	<u>\$ 829</u>	<u>(\$ 76)</u>	<u>\$1,304,851</u>
<u>LIABILITIES</u>				
Current liabilities:				
Prizes payable	\$ 131,731	\$	\$	\$ 131,731
Unclaimed and future prizes	76,896	95		76,991
Due to education	29,232	657		29,889
Due to administration	12,026			12,026
Other payables	<u>18,463</u>	<u>77</u>	<u>(76)</u>	<u>18,464</u>
Total current liabilities	268,348	829	(76)	269,101
Long-term prizes payable	1,035,750			1,035,750
Commitments and contingencies (Note 10)	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>\$1,304,098</u>	<u>\$ 829</u>	<u>(\$ 76)</u>	<u>\$1,304,851</u>

NEW YORK STATE LOTTERY

COMBINING SCHEDULE OF REVENUES AND EXPENSES For the Year Ended March 31, 1992 (In Thousands)

	<u>All Other Games</u>	<u>City* Games</u>	<u>Combined Total</u>
Ticket sales	\$2,057,162	\$ 5,907	\$2,063,069
Less:			
Prizes	(965,752)	(2,956)	(968,708)
Agent commissions	(123,473)	(354)	(123,827)
Contractor fees	<u>(57,882)</u>	<u>(377)</u>	<u>(58,259)</u>
Gross profit on ticket sales	910,055	2,220	912,275
General and administrative expenses	<u>54,174</u>	<u>146</u>	<u>54,320</u>
Income from operations	<u>855,881</u>	<u>2,074</u>	<u>857,955</u>
Nonoperating revenues (expenses):			
Interest Income	105,792	17	105,809
Interest expense - amortization of discount on prizes payable	(97,663)		(97,663)
Other, net	<u>1,143</u>	<u>(567)</u>	<u>576</u>
Total nonoperating revenues (expenses)	<u>9,272</u>	<u>(550)</u>	<u>8,722</u>
Income earned and required allocation to education	<u>\$ 865,153</u>	<u>\$ 1,524</u>	<u>\$ 866,677</u>

* City Games began September 1991.