

**Coopers
& Lybrand**

Certified Public Accountants

NEW YORK STATE LOTTERY

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

For the Years Ended March 31, 1993 and 1992

CONTENTS

	<u>Page</u>
REPORT OF INDEPENDENT ACCOUNTANTS	1
FINANCIAL STATEMENTS	
Statements of assets and liabilities	2
Statements of revenues and expenses	3
Statements of cash flows	4
Notes to financial statements	5-14
REPORT OF INDEPENDENT ACCOUNTANTS ON THE SUPPLEMENTARY FINANCIAL INFORMATION	15
SUPPLEMENTARY FINANCIAL INFORMATION	
Combining schedule of assets and liabilities	16
Combining schedule of revenues and expenses	17

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, 1993 and 1992, and the related statements of revenues and expenses and cash flows for the years then ended. These financial statements are the responsibility of the management of the New York State Lottery. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and liabilities of the New York State Lottery as of March 31, 1993 and 1992, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Coopers & Lybrand

Albany, New York
May 28, 1993

NEW YORK STATE LOTTERY

STATEMENTS OF ASSETS AND LIABILITIES

March 31, 1993 and 1992

(In Thousands)

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

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

	<u>1993</u>	<u>1992</u>
Cash flows from operating activities:		
Cash received from ticket sales	\$2,366,348	\$2,054,521
Cash payments for prizes	(1,092,255)	(976,631)
Cash payments for commissions and fees	(199,090)	(182,105)
Cash payments for general and administrative expenses	(68,010)	(44,330)
Net cash provided by operating activities	<u>1,006,993</u>	<u>851,455</u>
Cash flows from noncapital financing activities:		
Cash transfer to education	(962,195)	(844,925)
Cash flows from capital and related financing activities:		
Cash payments for equipment and leasehold improvements	(2,171)	(3,310)
Principal payments on capital lease	(898)	(842)
Net cash used in capital and related financing activities	<u>(3,069)</u>	<u>(4,152)</u>
Cash flows from investing activities:		
Proceeds from investment maturities	137,052	124,596
Proceeds from sale of investments	8,732	5,951
Purchases of investments	(149,811)	(147,277)
Interest on cash and cash equivalents	4,572	7,581
Net proceeds from swaps of investment securities	407	
Other cash payments and receipts, net	514	561
Net cash provided by (used in) investing activities	<u>1,466</u>	<u>(8,588)</u>
Net increase (decrease) in cash and cash equivalents	43,195	(6,210)
Cash and cash equivalents, beginning of year	<u>98,571</u>	<u>104,781</u>
Cash and cash equivalents, end of year	<u>\$ 141,766</u>	<u>\$ 98,571</u>
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ 994,569	\$ 857,955
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization	1,533	1,012
Changes in assets and liabilities affecting income from operations:		
Accounts receivable	(3,091)	(8,522)
Prizes payable	(4,132)	13,062
Unclaimed and future prizes	13,533	(19,967)
Due to administration	(4,254)	7,405
Deferred revenue	8,801	
Other payables	34	510
Net cash provided by operating activities	<u>\$1,006,993</u>	<u>\$ 851,455</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 expenses for administration, aid to education and prizes are reported in a Special Revenue Fund. Monies for prizes are transferred to a Lottery Agency Fund for payment of prizes as claims are filed. The accompanying financial statements include the accounts of both funds and are presented as an enterprise fund. The accounting policies of the Lottery conform in all material respects to generally accepted accounting principles whereby revenue is recognized when earned and expenses are recognized when incurred.

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

Revenue Recognition

On-line Games:

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

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

Instant Cash Games:

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

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

Commissions and Fees

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

NEW YORK STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS, Continued

1. Summary of Significant Accounting Policies, Continued

Allocation of Revenue from Ticket Sales

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

- . allocations of ticket sales revenue to New York State for educational purposes to be at least 30 percent for the New York State Lottery instant cash games, 35 percent for New York Numbers, Win-4 and Pick 10, and 45 percent for Lotto, Take Five and Cash 40. During fiscal year 1992, legislation was passed changing the allocation of ticket sales revenue to education from 35 percent to 30 percent for instant cash games and from 45 percent to 35 percent for Pick 10.
- . allocations of ticket sales revenue to New York City for educational purposes to be at least 35 percent for the New York City instant cash games, less any reimbursement to the Lottery for shortfalls in net revenue, as defined.
- . allocations of ticket sales revenue for the payment of lottery prizes not to exceed 55 percent for the New York State Lottery instant cash games, 50 percent for the New York Numbers, Win-4, Pick 10 and the New York City instant cash games, and 40 percent for Lotto, Take Five and Cash 40. During fiscal year 1992, legislation was passed changing the allocation of ticket sales revenue to prizes from 50 percent to 55 percent for New York State Lottery instant cash games and from 40 percent to 50 percent for Pick 10.
- . allocations of ticket sales revenue from all games for the payment of lottery administration expenses (including agent commissions and contractor fees) not to exceed 15 percent. Any excess of the maximum allocation over administration expenses is allocated to education. Such allocations amounted to approximately \$92,337,000 and \$74,995,000 for fiscal years 1993 and 1992, respectively. Administration expenses incurred by the Lottery represent telecommunications, advertising, salary and other operating costs and include an accrual for expenses to be paid after the fiscal year-end.

Cash Equivalents

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

Investments

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

NEW YORK STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS, Continued

1. Summary of Significant Accounting Policies, Continued

Equipment and Leasehold Improvements

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

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

Prizes Payable

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

Unclaimed and Future Prizes

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

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

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

2. Cash and Cash Equivalents

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

Lottery sales receipts are allocated and deposited in investment fund accounts for prizes, education and administration under the joint custody of the Lottery and the Office of the State Comptroller of the State of New York. The accounts for prizes and administration earn interest through participation in a short-term investment pool administered by the State Comptroller. The carrying and market value of the accounts included in cash and cash equivalents were \$141,712,000 and \$91,408,000 at March 31, 1993 and 1992, respectively. Interest income earned in each investment account is used for the specific purpose and benefit of that account.

The Lottery also maintains sole custody accounts which are used for daily cash management purposes. Amounts of cash balances included in cash and cash equivalents related to sole custody accounts were \$54,000 and \$7,163,000 for fiscal years 1993 and 1992, respectively.

NEW YORK STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS, Continued

2. Cash and Cash Equivalents, Continued

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

3. Investments

The Lottery is authorized to invest in U.S. Government-backed obligations (zero coupon bonds and stripped Government securities), which will provide for the payment of prizes payable (see Note 5). During fiscal years 1993 and 1992, approximately \$105,492,000 and \$98,525,000, respectively, of amortized discount was included in interest income.

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

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

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

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

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

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

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

NEW YORK STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS, Continued

4. Equipment and Leasehold Improvements

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

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

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

5. Prizes Payable

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

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

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

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

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

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

NEW YORK STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS, Continued

6. Operating Segment Information

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

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

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

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

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

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

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, 1993 and 1992 are as follows:

	<u>1993</u>	<u>1992</u>
Revenue transferred to education	\$ 962,195	\$ 844,925
Prior year payable	<u>(29,889)</u>	<u>(8,137)</u>
Amount transferred from current year revenue	932,306	836,788
Current year payable	<u>68,755</u>	<u>29,889</u>
Income earned and required allocation to education, net	<u>\$1,001,061</u>	<u>\$ 866,677</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, 1993 was approximately \$7,708,000; the Lottery's total payroll was approximately \$7,917,000.

The System provides retirement benefits as well as death and disability benefits. All benefits vest after 10 years of credited service. Retirement benefits that employees are entitled to are established by New York State law and are dependent upon the point in time at which the employee last joined the System. These retirement plans have both contributory and noncontributory requirements depending upon the point at which an employee last joined the System. Most members of the System who joined before July 27, 1976 are enrolled in a 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, 1992 (1993 plan data is not available) totaled approximately 812,642, including 264,452 retirees and beneficiaries currently receiving benefits and no longer working members entitled to benefits but not yet receiving them; 67,010 nonvested inactive members, and 481,180 current working members.

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

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

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, 1992 for the System as a whole, determined through an actuarial valuation performed as of that date, was \$44,034,000,000. The System's net assets available for benefits on that date (valued at market) were \$45,503,000,000 resulting in assets in excess of pension benefit obligation of \$1,469,000,000. The Lottery's 1992 contribution represented .1 percent of total contributions required of all participating entities.

Ten-year historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's March 31, 1992 annual financial report.

9. Deferred Compensation

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

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

10. Commitments and Contingencies

Contractual arrangements:

Presently, the New York State Lottery maintains two parallel on-line gaming networks, each comprised of several thousand agent terminals. The Lottery contracts the operations of such networks with two contractors, GTECH Corporation (GTECH) and Automated Wagering International, Inc. (AWI), formerly Control Data Corporation. The GTECH contract, entered into on February 28, 1993, expires on February 28, 1999. The AWI contract expires August 31, 1993 and will not be renewed. As a result, GTECH will be the only remaining contractor upon expiration of the AWI contract.

In connection with the award of the on-line games contract to GTECH in December 1992, AWI commenced a proceeding in the New York State Supreme Court seeking a judicial review of the contract award. On May 10, 1993, the Supreme Court affirmed the Lottery award decision, which AWI has indicated it will appeal. If AWI's appeal is successful, the Lottery might be required to conduct a further procurement which could result in a new contract at less favorable terms than the GTECH contract. It is the opinion of management and in-house counsel that the Lottery's award decision will be affirmed on appeal and that the outcome of this litigation will not have a material adverse impact on the financial position of the Lottery.

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

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

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 contracts that provide payments corresponding to the Lottery's obligation to the prize winners. The types of contracts entered into include agreements that pay installments for a specific term (investment contracts) as well as agreements to make installment payments to prize winners over the winners' lifetime. Because it is the intent of the Lottery that the insurance companies make future installment payments directly to each prize winner, the present value of the future payments under these contracts are not reflected in the accompanying financial statements. The Lottery may be liable for such future payments if the insurance companies were to default on their payments. Unpaid amounts under the investment contracts approximated \$90,000,000 at March 31, 1993. For contracts other than investment contracts, the insurance companies are making annual payments to sixty-five individuals totaling approximately \$1,200,000 as of March 31, 1993.

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

Litigation:

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

Federal Communications Commission (FCC) ruling:

On February 21, 1990, the FCC ruled, in response to a request from New York Telephone Company, that the New York Telephone Company should be permitted to retroactively charge intrastate rates rather than interstate rates for data telecommunications lines supplied to American Telephone and Telegraph Company (AT&T) for use by the Lottery. The Lottery had estimated the amount of retroactive adjustment to approximate \$10,108,000. During fiscal year 1993, the Lottery paid \$1,900,000 in full settlement of this matter.

11. Fair Value of Financial Instruments

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

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

Cash and Cash Equivalents:

The carrying amount of cash and cash equivalents approximates fair value because of their short maturity.

NEW YORK STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS, Continued

11. Fair Value of Financial Instruments, Continued

Investments:

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

Prizes Payable:

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

Investment Contracts:

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

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, 1993 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 16 and 17 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 28, 1993

NEW YORK STATE LOTTERY

COMBINING SCHEDULE OF ASSETS AND LIABILITIES

March 31, 1993

(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	\$ 141,711	\$ 55	\$	\$ 141,766
Accounts receivable	49,577	17	(2,543)	47,051
Investments, at amortized cost	<u>143,459</u>	<u> </u>	<u> </u>	<u>143,459</u>
Total current assets	334,747	72	(2,543)	332,276
Long-term investments, at amortized cost	1,110,642			1,110,642
Equipment and leasehold improvements, net of accumulated depreciation and amortization	<u>7,597</u>	<u> </u>	<u> </u>	<u>7,597</u>
Total assets	<u>\$1,452,986</u>	<u>\$ 72</u>	<u>(\$ 2,543)</u>	<u>\$1,450,515</u>
<u>LIABILITIES</u>				
Current liabilities:				
Prizes payable	\$ 144,264	\$	\$	\$ 144,264
Unclaimed and future prizes	90,469	55		90,524
Due to education	71,322	(2,567)		68,755
Due to administration	7,835			7,835
Deferred revenue	8,801			8,801
Hold harmless payable		2,540	(2,540)	
Other payables	<u>6,044</u>	<u>44</u>	<u>(3)</u>	<u>6,085</u>
Total current liabilities	328,735	72	(2,543)	326,264
Long-term prizes payable	<u>1,124,251</u>	<u> </u>	<u> </u>	<u>1,124,251</u>
Total liabilities	<u>\$1,452,986</u>	<u>\$ 72</u>	<u>(\$ 2,543)</u>	<u>\$1,450,515</u>

Note: The hold harmless payable represents the uncollected balance of the statutory shortfall in net revenue, as defined (see Note 1), based on the hold harmless calculation for the period ended February 28, 1993. Under the City games legislation, the shortfall can only be recovered from future sales of City games.

NEW YORK STATE LOTTERY

COMBINING SCHEDULE OF REVENUES AND EXPENSES
For the Year Ended March 31, 1993
(In Thousands)

	<u>All Other Games</u>	<u>City Games</u>	<u>Combined Total</u>
Ticket sales	\$2,357,299	\$2,711	\$2,360,010
Less:			
Prizes	(1,100,400)	(1,360)	(1,101,760)
Agent commissions	(141,442)	(162)	(141,604)
Contractor fees	(56,747)	(186)	(56,933)
Gross profit on ticket sales	1,058,710	1,003	1,059,713
General and administrative expenses	<u>65,111</u>	<u>33</u>	<u>65,144</u>
Income from operations	<u>993,599</u>	<u>970</u>	<u>994,569</u>
Nonoperating revenues (expenses):			
Interest income	109,986	20	110,006
Interest expense - amortization of discount on prizes payable	(105,167)		(105,167)
Hold harmless, City games	2,995	(2,995)	
Other, net	<u>1,653</u>	<u> </u>	<u>1,653</u>
Total nonoperating revenues (expenses)	<u>9,467</u>	<u>(2,975)</u>	<u>6,492</u>
Income earned (loss) and required allocation to education, net	<u>\$1,003,066</u>	<u>(\$2,005)</u>	<u>\$1,001,061</u>

Note: Hold harmless, City games represents the statutory shortfall in net revenue, as defined (see Note 1), based on the hold harmless calculation for the twelve-month period ended February 28, 1993.