

Audited Financial Statements and
Other Financial Information

New York State Lottery

Years Ended March 31, 1994 and 1993

New York State Lottery
Audited Financial Statements
and Other Financial Information
Years Ended March 31, 1994 and 1993

Contents

Report of Independent Auditors.....	1
Audited Financial Statements	
Statements of Assets and Liabilities.....	2
Statements of Revenue and Expenses.....	3
Statements of Cash Flows	4
Notes to Financial Statements.....	6
Other Financial Information	
Report of Independent Auditors on Other Financial Information.....	20
Combining Schedule of Assets and Liabilities	21
Combining Schedule of Revenue and Expenses.....	22

New York State Lottery

Statements of Assets and Liabilities

	March 31	
	1994	1993
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents <i>(Note 2)</i>	\$ 94,365	\$ 141,766
Accounts receivable	36,743	47,051
Investments, at amortized cost <i>(Note 3)</i>	156,541	143,459
Total current assets	287,649	332,276
Long-term investments, at amortized cost <i>(Note 3)</i>	1,202,000	1,110,642
Equipment and leasehold improvements, net of accumulated depreciation and amortization <i>(Note 4)</i>	6,494	7,597
Total assets	\$1,496,143	\$1,450,515
Liabilities		
Current liabilities:		
Prizes payable <i>(Note 5)</i>	\$ 156,451	\$ 144,264
Unclaimed and future prizes	72,876	90,524
Due to education <i>(Note 7)</i>	25,914	68,755
Due to administration	6,825	7,835
Deferred revenue	9,934	8,801
Other payables	8,394	6,085
Total current liabilities	280,394	326,264
Long-term prizes payable <i>(Note 5)</i>	1,215,749	1,124,251
Commitments and contingencies <i>(Note 11)</i>		
Total liabilities	\$1,496,143	\$1,450,515

See accompanying notes.

New York State Lottery
Statements of Revenue and Expenses

	Year Ended March 31	
	1994	1993
	<i>(In Thousands)</i>	
Ticket sales	\$2,369,080	\$2,360,010
Less:		
Prizes	(1,107,476)	(1,101,760)
Agent commissions	(142,145)	(141,604)
Contractor fees	(50,579)	(56,933)
Gross profit on ticket sales	<u>1,068,880</u>	<u>1,059,713</u>
General and administrative expenses	(64,001)	(65,144)
Income from operations	<u>1,004,879</u>	<u>994,569</u>
Nonoperating revenue (expenses):		
Interest income	115,636	110,006
Interest expense - amortization of discount on prizes payable	(110,893)	(105,167)
Other, net	1,536	1,653
Total nonoperating revenue	<u>6,279</u>	<u>6,492</u>
Income earned and required allocation to education, net	<u><u>\$1,011,158</u></u>	<u><u>\$1,001,061</u></u>
Components of income earned (loss incurred) and required allocation to education, net:		
New York State	\$1,014,976	\$1,003,066
New York City <i>(Note 1)</i>	(3,818)	(2,005)
	<u><u>\$1,011,158</u></u>	<u><u>\$1,001,061</u></u>

See accompanying notes.

New York State Lottery
Statements of Cash Flows

	Year Ended March 31	
	1994	1993
	<i>(In Thousands)</i>	
Operating activities		
Cash received from ticket sales	\$2,380,526	\$2,366,348
Cash payments for prizes	(1,132,308)	(1,092,255)
Cash payments for commissions and fees	(192,634)	(199,090)
Cash payments for general and administrative expenses	(60,673)	(68,010)
Net cash provided by operating activities	994,911	1,006,993
Investing activities		
Proceeds from investment maturities	149,247	137,052
Proceeds from sale of investments	5,106	8,732
Purchases of investments	(147,321)	(149,811)
Interest on cash and cash equivalents	4,403	4,572
Net proceeds from swaps of investment securities	60	407
Other cash payments and receipts, net	1,200	514
Net cash provided by investing activities	12,695	1,466
Noncapital financing activities		
Cash transfer to education	(1,053,999)	(962,195)
Capital financing activities		
Cash payments for equipment and leasehold improvements	—	(2,171)
Principal payments on capital leases	(1,008)	(898)
Net cash used by capital financing activities	(1,008)	(3,069)
Net increase (decrease) in cash and cash equivalents	(47,401)	43,195
Cash and cash equivalents, beginning of year	141,766	98,571
Cash and cash equivalents, end of year	\$ 94,365	\$ 141,766

New York State Lottery
Statements of Cash Flows (continued)

	Year Ended March 31	
	1994	1993
	<i>(In Thousands)</i>	
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$1,004,879	\$ 994,569
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization	1,655	1,533
Change in operating assets and liabilities:		
Accounts receivable	10,295	(3,091)
Prizes payable	(7,208)	(4,132)
Unclaimed and future prizes	(17,648)	13,533
Due to administration	(1,010)	(4,254)
Deferred revenue	1,133	8,801
Other payables	2,815	34
	\$ 994,911	\$1,006,993
Net cash provided by operating activities	\$ 994,911	\$1,006,993

See accompanying notes.

New York State Lottery
Notes to Financial Statements

March 31, 1994

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 revenue 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. The 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% of game 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%. Shortfalls approximated \$4,012,000 and \$2,995,000 in fiscal years 1994 and 1993, 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

New York State Lottery

Notes to Financial Statements (continued)

I. Summary of Significant Accounting Policies (continued)

from subscription sales and other ticket sales for future drawings is recorded as deferred revenue.

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 6% based on the total tickets sold. Contractors receive a fee equal to a contractual percentage of the revenue generated through the respective network maintained by each contractor (see *Note II*).

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% for the New York State Lottery instant cash games, 35% for New York Numbers, Win-4 and Pick 10, and 45% for Lotto and Take Five.
- Allocations of ticket sales revenue to New York City for educational purposes to be at least 35% 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% for the New York State Lottery instant cash games, 50% for the New York Numbers, Win-4, Pick 10 and the New York City instant cash games, and 40% for Lotto and Take Five.

New York State Lottery

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

- 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%. Any excess of the maximum allocation over administration expenses is allocated to education as is any related interest or other income. Such allocations amounted to approximately \$101,580,000 and \$92,337,000 for fiscal years 1994 and 1993, 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 revenue (expenses) in the period of disposal.

New York State Lottery

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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 \$33,735,000 and \$33,774,000 for fiscal years 1994 and 1993, 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 1994 and 1993, such supplemental prizes were paid for Lotto and Take Five. Prior to this legislation, unclaimed prizes were allocated to education.

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 \$94,820,000 and \$141,712,000 at March 31, 1994 and 1993, respectively. Interest income earned in each investment account is used for the specific purpose and benefit of that account.

New York State Lottery

Notes to Financial Statements (continued)

2. Cash and Cash Equivalents (continued)

The Lottery also maintains sole custody accounts which are used for daily cash management purposes. Amounts of cash balances (overdraft) included in cash and cash equivalents related to sole custody accounts were \$(455,000) and \$54,000 for fiscal years 1994 and 1993, respectively.

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

3. Investments

The Lottery is authorized to invest in U.S. Government-backed obligations (zero coupon bonds and stripped Government securities), which will provide for the payment of prizes payable (see *Note 5*). During fiscal years 1994 and 1993, approximately \$111,247,000 and \$105,492,000, respectively, of amortized discount was included in interest income.

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

	<u>1994</u>	<u>1993</u>
Maturity value	\$2,416,404	\$2,311,496
Less: unamortized discount	1,057,863	1,057,395
Total carrying value	<u>1,358,541</u>	<u>1,254,101</u>
Less: investments, maturing within one year	156,541	143,459
Long-term investments	<u>\$1,202,000</u>	<u>\$1,110,642</u>
Total market value	<u>\$1,505,498</u>	<u>\$1,470,605</u>

New York State Lottery

Notes to Financial Statements (continued)

3. Investments (continued)

Maturities of the investments in each of the five fiscal years following March 31, 1994, and the total thereafter, are as follows (in thousands):

1995	\$ 162,345
1996	162,349
1997	162,338
1998	162,509
1999	162,174
Thereafter	1,604,689
	<u>\$2,416,404</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 1994, the face value of the securities swapped amounted to \$27,823,000 resulting in a gain of approximately \$60,000. 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 described 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, are as follows (in thousands):

	1994	1993
Equipment (principally capital leases)	\$ 6,485	\$ 5,932
Leasehold improvements	4,526	4,526
	11,011	10,458
Less: accumulated depreciation and amortization	(4,517)	(2,861)
Equipment and leasehold improvements, net	\$ 6,494	\$ 7,597

The Lottery has entered into certain capital leases for computer equipment approximating \$5,378,000. Accumulated amortization for the capital leases approximated \$2,906,000 and \$1,955,000 for fiscal years 1994 and 1993, respectively.

5. Prizes Payable

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

	1994	1993
Total obligation	\$2,425,352	\$2,321,469
Less: unamortized discount	1,053,152	1,052,954
Total carrying amount	1,372,200	1,268,515
Less: prizes payable within one year	156,451	144,264
Long-term prizes payable	\$1,215,749	\$1,124,251

The amortized discount on the prizes payable is based on interest rates which range from 3.01% to 13.55% 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 revenue and expenses and amounted to \$110,893,000 and \$105,167,000 for fiscal years 1994 and 1993, respectively.

New York State Lottery

Notes to Financial Statements (continued)

5. Prizes Payable (continued)

The aggregate amount of prizes payable due in each of the five fiscal years following March 31, 1994, and the total thereafter, is as follows (in thousands):

1995	\$ 162,207
1996	161,918
1997	161,918
1998	161,918
1999	161,918
Thereafter	1,615,473
	\$2,425,352

6. Operating Segment Information

Operating segment information for fiscal 1994 and 1993 by type of lottery game is as follows (in thousands):

	1994				
	Ticket Sales	Prizes	Agent Commissions	Contractor Fees	Gross Profit on Ticket Sales
Lotto	\$ 645,718	\$ (259,694)	\$ (38,744)	\$ (9,453)	\$ 337,827
Take Five	307,475	(123,333)	(18,448)	(4,775)	160,919
Pick 10	84,420	(42,304)	(5,065)	(1,307)	35,744
New York Numbers	658,141	(329,805)	(39,488)	(10,268)	278,580
Win-4	374,322	(187,579)	(22,459)	(5,817)	158,467
Instant Cash Games	298,478	(164,496)	(17,909)	(18,927)	97,146
City Games	526	(265)	(32)	(32)	197
	\$2,369,080	\$(1,107,476)	\$(142,145)	\$ (50,579)	1,068,880
General and administrative expenses					(64,001)
Nonoperating revenue					6,279
Income earned and required allocation to education, net					\$1,011,158

New York State Lottery

Notes to Financial Statements (continued)

6. Operating Segment Information (continued)

Components of loss and required allocation to education for New York City of \$(3,818,000) in fiscal year 1994 are gross profit on the City Games of \$197,000 less general administration expenses of \$8,000 and nonoperating expenses (net) of \$4,007,000.

	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 revenue					<u>6,492</u>
Income earned and required allocation to education, net					<u><u>\$1,001,061</u></u>

Components of loss and required allocation to education for New York City of \$(2,005,000) in fiscal year 1993 are gross profit on the City Games of \$1,003,000 less general and administrative expenses of \$33,000 and nonoperating expenses (net) of \$2,975,000.

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, 1994 and 1993, are as follows (in thousands):

	1994	1993
Revenue transferred to education	\$1,053,999	\$ 962,195
Prior year payable	(68,755)	(29,889)
Amount transferred from current year revenue	985,244	932,306
Current year payable	25,914	68,755
Income earned and required allocation to education, net	\$1,011,158	\$1,001,061

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, 1994, was approximately \$8,298,000; the Lottery's total payroll was approximately \$8,462,000.

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, 1993 totaled approximately 804,282, including 269,323 retirees and

New York State Lottery

Notes to Financial Statements (continued)

8. Defined Benefit Pension Plan (continued)

beneficiaries currently receiving benefits and no longer working members entitled to benefits but not yet receiving them; 55,209 nonvested inactive members, and 479,750 current working members.

The contribution requirement for the year ended March 31, 1994, was \$428,872, which consisted of \$260,630 from the Lottery and \$168,242 from employees; these contributions represented 3.1% and 2.0% of covered payroll, respectively. 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 "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, 1993, for the System as a whole, determined through an actuarial valuation performed as of that date, was \$46,481,000,000. The System's net assets available for benefits on that date (valued at market) were \$49,084,000,000 resulting in assets in excess of pension benefit obligation of \$2,603,000,000. The Lottery's 1993 contribution represented .1% 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 and other significant factors are presented in the System's March 31, 1993 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

New York State Lottery

Notes to Financial Statements (continued)

9. Deferred Compensation (continued)

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 the 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. Postretirement Benefits

In addition to the pension benefits described in *Note 8*, the State provides health insurance coverage and survivor benefits for retired employees and their survivors. Substantially all of the State's employees may become eligible for these benefits if they reach normal retirement age while working for the State. Health care benefits are provided through an insurance company whose premiums are based on the benefits paid during the year. The state recognizes the cost of providing health insurance by recording its share of insurance premiums as an expenditure in the general fund in the year paid. Additionally, the survivor's benefit program provides for a death benefit to be paid by the State to a retiree's designated beneficiary. The Lottery is not charged for these benefits to its former employees.

11. Commitments and Contingencies

Contractual Arrangements:

The Lottery maintains an on-line gaming network of over 8,000 terminals. GTECH Corporation (GTECH) is responsible for operating the network under a contract expiring on February 28, 1999. Formerly, there were two parallel on-line networks, one operated by GTECH and the other by Automated Wagering International, Inc. (AWI). The current contract was awarded to GTECH following a competition conducted by the Lottery. AWI challenged the contract award in a lawsuit which was dismissed by the New York

New York State Lottery

Notes to Financial Statements (continued)

11. Commitments and Contingencies (continued)

State Supreme Court on May 10, 1993. AWI then appealed to the Appellate Division of the Supreme Court, which twice rejected AWI's arguments, most recently on April 28, 1994. AWI has no appeal as of right to the Court of Appeals, the State's highest court, but AWI may seek special permission to appeal to that court. If AWI's litigation succeeds, the Lottery might be required to conduct a further procurement which could result in a new contract on less favorable terms than the GTECH contract. However, it is the opinion of management and in-house counsel that, whether or not the case is brought to the Court of Appeals, the contract award is likely to be affirmed and the litigation will not have a material adverse effect on the financial position of the Lottery.

The Lottery maintains a network of more than 3,000 off-line locations where only instant cash games are sold. The network is supported by the services of three contractors: (1) Under a contract expiring January 31, 1997, Scientific Games, Inc. is responsible for maintaining validating devices installed at each sales location. (2) Under a contract expiring July 14, 1995, Dittler Brothers, Inc. is responsible for production of instant cash tickets. (3) Under a contract expiring January 13, 1997, GTECH is responsible for various services related to the warehousing, sales, distribution of, and accounting for, instant cash tickets. Instant cash tickets are also sold through vending machines at approximately 1,000 locations. A contract with Lottery Enterprises, Inc., expiring on July 14, 1996, provides for maintenance of the vending machines.

GTECH's fees are based on a percentage of ticket sales. All other gaming contractors are paid fees based on the units of service provided.

Capital and Operating Leases:

The Lottery has entered into certain capital lease obligations with the State of New York which are included in other payables. The leases require semi-annual payments approximating \$638,000, including interest of 6.60% and 5.11% (imputed interest remaining under these leases is approximately \$245,000 at March 31, 1994; \$365,000 at March 31, 1993). The leases expire in March 1996 and August 1998.

In addition the Lottery has entered into an operating lease for equipment requiring semi-annual payments of approximately \$565,000 through February 1999.

New York State Lottery

Notes to Financial Statements (continued)

11. 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 \$84,000,000 at March 31, 1994, which have a fair value that approximates \$65,000,000. 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, 1994.

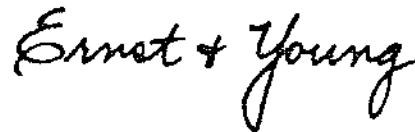
Litigation:

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.

Report of Independent Auditors
on Other Financial Information

New York State Lottery

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The following combining schedule of assets and liabilities and combining schedule of revenue and expenses 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.



May 25, 1994

New York State Lottery

Combining Schedule of Assets and Liabilities

	March 31, 1994 (In thousands)			
	All Other Games	City Games	Eliminations	Combined Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 94,308	\$ 57		\$ 94,365
Accounts receivable	43,071	11	\$(6,339)	36,743
Investments, at amortized cost	156,541			156,541
Total current assets	293,920	68	(6,339)	287,649
Long-term investments, at amortized cost	1,202,000			1,202,000
Equipment and leasehold improvements, net of accumulated depreciation and amortization	6,494			6,494
Total assets	<u>\$1,502,414</u>	<u>\$ 68</u>	<u>\$(6,339)</u>	<u>\$1,496,143</u>
Liabilities				
Current liabilities:				
Prizes payable	\$ 156,451			\$ 156,451
Unclaimed and future prizes	72,820	\$ 56		72,876
Due to education	32,299	(6,385)		25,914
Due to administration	6,825			6,825
Deferred revenue	9,934			9,934
Hold harmless payable		6,336	\$(6,336)	
Other payables	8,336	61	(3)	8,394
Total current liabilities	286,665	68	(6,339)	280,394
Long-term prizes payable	1,215,749			1,215,749
Total liabilities	<u>\$1,502,414</u>	<u>\$ 68</u>	<u>\$(6,339)</u>	<u>\$1,496,143</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, 1994. Under the City games legislation, the shortfall can only be recovered from future sales of City games.

New York State Lottery

Combining Schedule of Revenue and Expenses

	March 31, 1994 (In thousands)		
	All Other Games	City Games	Combined Total
Ticket sales	\$ 2,368,554	\$ 526	\$ 2,369,080
Less:			
Prizes	(1,107,211)	(265)	(1,107,476)
Agent commissions	(142,113)	(32)	(142,145)
Contractor fees	(50,547)	(32)	(50,579)
Gross profit on ticket sales	1,068,683	197	1,068,880
General and administrative expenses	63,993	8	64,001
Income from operations	1,004,690	189	1,004,879
Nonoperating revenue (expenses):			
Interest income	115,631	5	115,636
Interest expense - amortization of discount on prizes payable	(110,893)		(110,893)
Hold harmless, City games	4,012	(4,012)	
Other, net	1,536		1,536
Total nonoperating revenue (expenses)	10,286	(4,007)	6,279
Income earned (loss incurred) and required allocation to education, net	\$ 1,014,976	\$(3,818)	\$ 1,011,158

Note: Hold harmless, City games represents the statutory shortfall in net revenue, as defined (see Note I), based on the hold harmless calculation for the twelve-month period ended February 28, 1994.