



NEW YORK STATE LOTTERY

Financial Statements

Years Ended March 31, 1998 and 1997

(With Independent Auditors' Report Thereon)

NEW YORK STATE LOTTERY

Financial Statements

Years ended March 31, 1998 and 1997

Table of Contents

	<u>Page</u>
Independent Auditors' Report.....	1
Statements of Assets and Liabilities	2
Statements of Revenue and Expenses.....	3
Statements of Cash Flows.....	4
Notes to Financial Statements.....	5

Independent Auditors' Report

New York State Lottery

We have audited the accompanying statements of assets and liabilities of the New York State Lottery as of March 31, 1998 and 1997, and the related statements of revenue and expenses, and cash flows for the years then ended. These financial statements are the responsibility of the New York State Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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.

As discussed in Note 1, the financial statements present only the New York State Lottery and do not present the financial position of the State of New York and the results of its operations and cash flows.

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, 1998 and 1997, and its revenue, expenses, and cash flows for the years then ended in conformity with generally accepted accounting principles.



May 29, 1998

NEW YORK STATE LOTTERY

Statements of Assets and Liabilities

March 31, 1998 and 1997

(In Thousands)

Assets	<u>1998</u>	<u>1997</u>
Current assets:		
Cash and cash equivalents (Note 2)	\$ 151,078	155,189
Accounts receivable, net	175,904	169,403
Investments, at amortized cost (Note 3)	199,177	194,953
Instant game ticket inventory	<u>5,842</u>	<u>3,760</u>
Total current assets	532,001	523,305
Long-term investments, at amortized cost (Note 3)	1,444,529	1,448,673
Equipment and leasehold improvements, net of accumulated depreciation and amortization (Note 4)	<u>2,345</u>	<u>3,261</u>
Total assets	\$ <u>1,978,875</u>	<u>1,975,239</u>
Liabilities		
Current liabilities:		
Prizes payable (Note 5)	\$ 199,192	195,063
Unclaimed and future prizes	200,644	197,331
Due to education (Note 6)	70,650	75,720
Due to administration	15,669	13,018
Deferred revenue	14,851	10,910
Other payables	<u>11,545</u>	<u>15,802</u>
Total current liabilities	512,551	507,844
Long-term prizes payable (Note 5)	1,466,324	1,467,395
Commitments and contingencies (Note 11)	<u>—</u>	<u>—</u>
Total liabilities	\$ <u>1,978,875</u>	<u>1,975,239</u>

See accompanying notes to financial statements.

NEW YORK STATE LOTTERY

Statements of Revenue and Expenses

Years ended March 31, 1998 and 1997

(In Thousands)

	<u>1998</u>	<u>1997</u>
Revenue:		
Ticket sales	\$ 3,943,096	3,992,314
Interest income	141,196	140,791
Other income	<u>938</u>	<u>3,182</u>
Total revenue	4,085,230	4,136,287
Expenses:		
Prizes	1,993,973	2,026,162
Agent commissions	236,851	240,326
Contractor fees	95,595	96,783
Instant game ticket printing	9,107	11,012
General and administrative expenses	89,631	87,437
Interest expense	<u>131,219</u>	<u>131,810</u>
Total expenses	<u>2,556,376</u>	<u>2,593,530</u>
Net income and required allocation to education (Note 6)	\$ <u>1,528,854</u>	<u>1,542,757</u>

See accompanying notes to financial statements.

NEW YORK STATE LOTTERY

Statements of Cash Flows

Years ended March 31, 1998 and 1997

(In Thousands)

	<u>1998</u>	<u>1997</u>
Cash flows from operating activities:		
Cash received from ticket sales	\$ 3,939,855	3,940,105
Cash payments for prizes	(2,120,032)	(2,091,615)
Cash payments for commissions and fees	(332,303)	(336,681)
Cash payments for ticket printing	(9,695)	(9,491)
Cash payments for general and administrative expenses	<u>(89,937)</u>	<u>(74,405)</u>
Net cash provided by operating activities	1,387,888	1,427,913
Cash flows from investing activities:		
Proceeds from investment maturities	202,635	197,261
Proceeds from sale of investments	5,799	663
Purchases of investments	(76,963)	(86,560)
Interest on cash and cash equivalents	9,546	8,465
Net proceeds from swaps of investment securities	-	87
Other cash payments and receipts, net	<u>1,105</u>	<u>3,529</u>
Net cash provided by investing activities	142,122	123,445
Cash flows from noncapital financing activities:		
Cash transfer to education	(1,533,924)	(1,533,183)
Cash flows from capital financing activities:		
Cash payments for equipment and leasehold improvements	(47)	(83)
Principal payments on capital leases	<u>(150)</u>	<u>(37)</u>
Net cash used by capital financing activities	<u>(197)</u>	<u>(120)</u>
Net increase (decrease) in cash and cash equivalents	(4,111)	18,055
Cash and cash equivalents, beginning of year	<u>155,189</u>	<u>137,134</u>
Cash and cash equivalents, end of year	\$ <u>151,078</u>	<u>155,189</u>
Reconciliation of net income and required allocation to education to net cash provided by operating activities:		
Net income and required allocation to education	1,528,854	1,542,757
Adjustments to reconcile net income and required allocation to education to net cash provided by operating activities:		
Interest income	(141,196)	(140,791)
Other income	(938)	(3,182)
Depreciation and amortization	963	991
Amortization of discount on prizes payable	131,219	131,810
Change in operating assets and liabilities:		
Increase in accounts receivable, net	(6,950)	(53,929)
Decrease (increase) in ticket inventory	(2,082)	1,914
Decrease in prizes payable	(128,161)	(109,914)
Increase in unclaimed and future prizes	3,313	43,267
Increase in due to administration	2,651	7,361
Increase in deferred revenue	3,941	1,488
Increase (decrease) in other payables	<u>(3,726)</u>	<u>6,141</u>
Net cash provided by operating activities	\$ <u>1,387,888</u>	<u>1,427,913</u>

See accompanying notes to financial statements.

NEW YORK STATE LOTTERY

Notes to Financial Statements

March 31, 1998 and 1997

(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. These financial statements present only the Lottery and do not present the financial position of the State of New York, and the results of its operations and cash flows. 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 were concluded on June 30, 1996. All activity for the City games was settled in fiscal year 1997.

(a) Revenue Recognition

(i) On-line Games

Revenue from ticket sales for Lotto, Quick Draw, Take Five, Pick 10, New York Numbers and Win-4 games (on-line games) is recognized when the related drawing takes place. Receipts from subscription sales and other ticket sales for future drawings are recorded as deferred revenue and recognized when the related drawings take place. Revenue and receipts for the Lucky Day promotional game that started in February 1997 and ended in October 1997 were recognized consistent with on-line games.

(ii) Instant Cash Games

Revenue from instant cash games is recognized based on the dollar value of the total number of tickets available for sale. Tickets are available for sale upon being activated on the Lottery Validation System at the agent locations.

(b) Commissions and Fees

Agents receive a commission of 6% based on the total tickets sold. The on-line game contractor receives a fee equal to a contractual percentage of the revenue generated through the respective network maintained by the contractor. All other gaming contractors are paid fees based on the units of service provided (see note 11).

NEW YORK STATE LOTTERY

Notes to Financial Statements (Continued)

(1), Continued

(c) *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 Take Five, New York Numbers, Win-4 and Pick 10, 45% for Lotto and Lucky Day promotional game, and 25% for Quick Draw.
- 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 Take Five, New York Numbers, Win-4, and Pick 10, 40% for Lotto and Lucky Day promotional game, and 60% for Quick Draw.
- 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 \$160,918,000 and \$166,363,000 for fiscal years 1998 and 1997, 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.

(d) *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.

(e) *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.

(f) *Inventory*

Instant cash game tickets are purchased from printers. Tickets not activated for sale are held in inventory and are valued at cost by game. Tickets are charged to printing expense under the first-in, first-out (FIFO) accounting method when activated for sale by the agents. At the conclusion of an instant cash ticket game unsold inventory is offset against other income.

NEW YORK STATE LOTTERY

Notes to Financial Statements (Continued)

(5), Continued

The aggregate amount of prizes payable due in each of the five fiscal years following March 31, 1998, and the total thereafter, is as follows (in thousands):

1999		\$ 206,464
2000		205,914
2001		205,831
2002		206,349
2003		206,666
Thereafter		<u>1,756,442</u>
		<u>\$ 2,787,666</u>

(6) Education

Net income and required allocation to education during the fiscal years ended March 31, 1998 and 1997, are as follows (in thousands):

	<u>1998</u>	<u>1997</u>
Revenue transferred to education	\$ 1,533,924	1,533,183
Prior year payable	<u>(75,720)</u>	<u>(66,146)</u>
Amount transferred from current year revenue	1,458,204	1,467,037
Current year payable	<u>70,650</u>	<u>75,720</u>
Net income and required allocation to education	<u>\$ 1,528,854</u>	<u>1,542,757</u>

(7) Segment Information

Segment information for fiscal 1998 and 1997 by type of lottery game is as follows (in thousands):

		<u>1998</u>					
		<u>Expenses</u>					
	<u>Revenue</u>	<u>Prizes</u>	<u>Commissions</u>	<u>Fees</u>	<u>Ticket Printing</u>	<u>Net</u>	
Lotto	\$ 870,487	(349,999)	(52,213)	(13,038)	-	455,237	
Take Five	384,782	(193,388)	(23,087)	(5,859)	-	162,448	
Pick 10	49,872	(25,065)	(2,992)	(761)	-	21,054	
New York Numbers	698,527	(351,073)	(41,911)	(10,652)	-	294,891	
Win-4	434,969	(218,611)	(26,098)	(6,633)	-	183,627	
Instant Cash Games	991,688	(548,254)	(59,783)	(43,436)	(9,107)	331,108	
Quick Draw	504,444	(304,235)	(30,267)	(15,089)	-	154,853	
Lucky Day	<u>8,327</u>	<u>(3,348)</u>	<u>(500)</u>	<u>(127)</u>	<u>-</u>	<u>4,352</u>	
	<u>\$ 3,943,096</u>	<u>(1,993,973)</u>	<u>(236,851)</u>	<u>(95,595)</u>	<u>(9,107)</u>	1,607,570	
Interest income						141,196	
Other income						938	
General and administrative						(89,631)	
Interest expense						<u>(131,219)</u>	
Net income and required allocation to education						<u>\$ 1,528,854</u>	

NEW YORK STATE LOTTERY

Notes to Financial Statements (Continued)

(1), Continued

(g) *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. 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 other income (expenses) in the period of disposal.

(h) *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. Effective February 1996, Lotto jackpot players began having the option of selecting a lump sum payment in lieu of long term annuity payments.

(i) *Unclaimed and Future Prizes*

Unclaimed prizes at March 31, 1998 and 1997 were \$132,048,000 and \$132,713,000, respectively. Prizes unclaimed for one year after the drawing date (lapsed) are forfeited by the ticket holder. Total prizes lapsed amounted to approximately \$62,488,000 and \$38,254,000 for fiscal years 1998 and 1997, respectively.

Under the Tax Law, the Lottery retains forfeited prizes for supplemental prizes in subsequent Lottery games. During fiscal years 1998 and 1997, such supplemental prizes were used primarily for Lotto.

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 account for prizes earns interest through participation in a short-term investment pool administered by the State Comptroller. The carrying amount of the accounts included in cash and cash equivalents were \$153,602,000 and \$156,138,000 at March 31, 1998 and 1997, respectively. The cost of cash equivalents approximates market value. 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), Continued

The Lottery also maintains sole custody accounts which are used for daily cash management purposes. The Lottery manages the investment of its cash balances to minimize its uninvested funds. At March 31, 1998 and 1997 the amount of outstanding checks in excess of bank balances included in cash and cash equivalents related to the sole custody accounts were (\$2,524,000) and (\$949,000), respectively.

The Lottery's deposits are collateralized under a program administered by the Office of the State Comptroller of the State of New York. 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), which will provide for the payment of prizes payable (see note 5). During fiscal years 1998 and 1997, approximately \$131,624,000 and \$132,214,000, respectively, of amortized discount was included in interest income.

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

	<u>1998</u>	<u>1997</u>
Maturity value	\$ 2,752,005	2,792,856
Less: unamortized discount	<u>1,108,299</u>	<u>1,149,230</u>
Total carrying value	1,643,706	1,643,626
Less: investments, maturing within one year	<u>199,177</u>	<u>194,953</u>
Long-term investments	\$ <u>1,444,529</u>	<u>1,448,673</u>
 Total market value	 \$ <u>1,839,089</u>	 <u>1,739,417</u>

Maturities of the investments in each of the five fiscal years following March 31, 1998, and the total thereafter, are as follows (in thousands):

1999	\$ 206,760
2000	207,208
2001	207,557
2002	207,797
2003	208,180
Thereafter	<u>1,714,503</u>
	\$ <u>2,752,005</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 1998, there were no swap transactions. During fiscal year 1997, the face value of the securities swapped amounted to \$11,944,000 resulting in a gain of approximately \$87,000. This gain is included in other income.

NEW YORK STATE LOTTERY

Notes to Financial Statements (Continued)

(3), Continued

The Lottery's investments are categorized to give an indication of the level of custodial 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.

(4) Equipment and Leasehold Improvements

Equipment and leasehold improvements as of March 31, are as follows (in thousands):

	<u>1998</u>	<u>1997</u>
Equipment (principally capital leases)	\$ 7,120	7,416
Leasehold improvements	<u>4,526</u>	<u>4,526</u>
	11,646	11,942
Less: accumulated depreciation and amortization	<u>9,301</u>	<u>8,681</u>
Equipment and leasehold improvements, net	\$ <u><u>2,345</u></u>	<u><u>3,261</u></u>

The Lottery has entered into certain capital leases for computer equipment approximating \$5,378,000 at March 31, 1998 and 1997. Accumulated amortization for the capital leases approximated \$4,879,000 and \$4,766,000 for fiscal years 1998 and 1997, respectively.

(5) Prizes Payable

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

	<u>1998</u>	<u>1997</u>
Total obligation	\$ 2,787,666	2,820,695
Less: unamortized discount	<u>1,122,150</u>	<u>1,158,237</u>
Total carrying amount	1,665,516	1,662,458
Less: prizes payable within one year	<u>199,192</u>	<u>195,063</u>
Long-term prizes payable	\$ <u><u>1,466,324</u></u>	<u><u>1,467,395</u></u>

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 \$131,219,000 and \$131,810,000 for fiscal years 1998 and 1997, respectively.

NEW YORK STATE LOTTERY

Notes to Financial Statements (Continued)

(7), Continued

		1997					
		Expenses				Ticket	
	Revenue	Prizes	Commissions	Fees	Printing	Net	
Lotto	\$ 874,321	(351,729)	(52,412)	(13,111)	-	457,069	
Take Five	341,282	(171,366)	(20,482)	(5,154)	-	144,280	
Pick 10	57,653	(28,949)	(3,459)	(879)	-	24,366	
New York Numbers	668,811	(335,827)	(40,129)	(10,199)	-	282,656	
Win-4	426,587	(214,201)	(25,595)	(6,505)	-	180,286	
Instant Cash Games	1,056,633	(583,618)	(64,227)	(46,281)	(11,012)	351,495	
Quick Draw	561,093	(338,087)	(33,666)	(14,564)	-	174,776	
Lucky Day	5,934	(2,383)	(356)	(90)	-	3,105	
City Games	-	(2)	-	-	-	(2)	
	\$ 3,992,314	(2,026,162)	(240,326)	(96,783)	(11,012)	1,618,031	
Interest income						140,791	
Other income						3,182	
General and administrative						(87,437)	
Interest expense						(131,810)	
Net income and required allocation to education						\$ 1,542,757	

(8) Pension Benefits

Substantially all employees of the Lottery are members of the New York State and Local Employees' Retirement System (System), a cost-sharing, multiple employer public employee retirement system. The State Comptroller is sole trustee and administrative head of the System. The System issues a publicly available financial report that includes financial statements and required supplementary information which may be obtained by writing to New York State and Local Employees' Retirement System, Alfred E. Smith Office Building, Albany, New York 12244.

The System provides retirement benefits as well as death and disability benefits. All benefits vest after ten years of accredited service. Retirement benefits are established by the New York State Retirement and Social Security Law. Retirement benefits and contributory requirements depend upon the point in time at which an employee last joined the System. Most members of the System who joined before July 27, 1976 are enrolled in a noncontributory plan; the Lottery contributes the entire amount determined to be payable to the System. Personnel who joined the System after July 27, 1976 are required by law to contribute three percent of their gross salary; the Lottery contributes the balance payable to the System for these employees.

The Lottery paid to the New York State Comptroller's Office \$902,000 for 1998, \$819,000 for 1997, and \$637,000 for 1996 to cover required employer contributions for retirement benefits. These payments made represent 7.21%, 6.88% and 6.09% of covered payroll for each of the years, respectively.

NEW YORK STATE LOTTERY

Notes to Financial Statements (Continued)

(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, are placed in trust for the participants and their beneficiaries.

(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 directly charged for these benefits to its former employees.

(11) Commitments and Contingencies

(a) Contractual Arrangements

The Lottery maintains a gaming network of over 12,500 on-line locations where all games are sold and over 2,500 off-line locations which sell only instant cash game tickets. GTECH Corporation (GTECH) is responsible for operating the on-line games under a contract expiring on February 29, 2000. Instant cash game sales are supported by the services of four contractors:

- (1) Under a contract expiring January 31, 2000, Scientific Games, Inc. is responsible for maintaining validating devices installed at each sales location.
- (2) Under a contract expiring June 10, 1999, Scientific Games, Inc. is responsible for production of instant cash tickets.
- (3) Under a contract expiring January 13, 1999, GTECH is responsible for various services related to the warehousing, sales, distribution of, and accounting for, instant cash tickets.
- (4) Instant cash tickets are also sold through vending machines at approximately 3,400 locations. Contracts with On-Point Technology (formerly Lottery Enterprises, Inc.), expiring on March 31, 1999, and International Lottery Inc., expiring on March 30, 1999, provide for maintenance of the vending machines.

NEW YORK STATE LOTTERY

Notes to Financial Statements (Continued)

(11), Continued

(b) *Capital and Operating Lease*

The Lottery has entered into a capital lease obligation with the State of New York which is included in other payables. The lease requires semi-annual payments approximating \$65,000 through August 1998 when the lease expires, including interest of 5.11%. Imputed interest remaining under these leases is approximately \$2,000 and \$9,500 at March 31, 1998 and 1997, respectively.

In addition the Lottery has entered into operating leases for equipment and building space. Rental expense was \$6,608,000 and \$6,243,000 in 1998 and 1997, respectively.

The following is a schedule of future minimum lease payments under noncancellable operating leases having initial or remaining terms in excess of one year as of March 31, 1998:

<u>Fiscal Year</u>	<u>Operating Leases</u>
1999	\$ 7,559,000
2000	5,763,000
2001	3,390,000
2002	2,592,000
2003	2,242,000
Thereafter	<u>3,909,000</u>
Total minimum lease payments	\$ <u>25,455,000</u>

(c) *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 \$42,000,000 at March 31, 1998, which have a fair value that approximates \$35,000,000. For contracts other than investment contracts, the insurance companies are making annual payments to approximately 57 individuals totaling approximately \$620,000 as of March 31, 1998.

(d) *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.