



NEW YORK STATE LOTTERY
Financial Statements
Years Ended March 31, 2002 and 2001
(With Independent Auditors' Report Thereon)

NEW YORK STATE LOTTERY
Financial Statements
Years ended March 31, 2002 and 2001

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515 Broadway
Albany, NY 12207

Independent Auditors' Report

New York State Lottery:

We have audited the accompanying statements of assets and liabilities of the New York State Lottery ("Lottery") as of March 31, 2002 and 2001, and the related statements of revenue and expenses, and cash flows for the years then ended. These financial statements are the responsibility of the 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 are intended to present the financial position and results of operations and the cash flows of only that portion of the financial reporting entity of the State that is attributable to the transactions of the Lottery. They 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, 2002 and 2001, and its revenue, expenses, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

June 14, 2002



KPMG LLP/MG LLP is a U.S. limited liability partnership, a member of KPMG network and a Swiss entity.

NEW YORK STATE LOTTERY
Statements of Assets and Liabilities
March 31, 2002 and 2001
(In thousands)

Assets	<u>2002</u>	<u>2001</u>
Current assets:		
Cash and cash equivalents (note 2)	\$ 181,325	182,873
Accounts receivable, net	284,215	211,859
Investments (note 3)	218,389	213,394
Instant game ticket inventory	7,966	5,089
Total current assets	<u>691,895</u>	<u>613,215</u>
Long-term investments (note 3)	1,389,151	1,502,833
Equipment and leasehold improvements, net of accumulated depreciation and amortization (note 4)	165	230
Total assets	<u><u>\$ 2,081,211</u></u>	<u><u>2,116,278</u></u>
Liabilities		
Current liabilities:		
Prizes payable (note 5)	\$ 217,550	212,445
Unclaimed and future prizes	382,283	383,930
Due to education (note 6)	133,662	115,582
Due to administration	6,712	11,656
Deferred revenue	8,697	8,193
Other payables and liabilities	38,656	27,969
Total current liabilities	<u>787,560</u>	<u>759,775</u>
Long-term prizes payable (note 5)	1,293,651	1,356,503
Commitments and contingencies (note 11)		
Total liabilities	<u><u>\$ 2,081,211</u></u>	<u><u>2,116,278</u></u>

See accompanying notes to financial statements.

NEW YORK STATE LOTTERY
Statements of Revenue and Expenses
Years ended March 31, 2002 and 2001
(In thousands)

	<u>2002</u>	<u>2001</u>
Income from operations:		
Ticket sales	\$ 4,753,618	4,185,330
Prize expenses	(2,664,143)	(2,273,582)
Retailer commissions	(284,344)	(250,157)
Contractor fees	(118,629)	(104,810)
Instant ticket printing expense	<u>(15,476)</u>	<u>(12,373)</u>
Gross profit on ticket sales	1,671,026	1,544,408
Administrative expenses	<u>(91,816)</u>	<u>(98,598)</u>
Income from operations	1,579,210	1,445,810
Non-operating income:		
Investment income	65,506	219,081
Indirect prize expense	(65,506)	(219,081)
Other revenue, net	<u>367</u>	<u>1,089</u>
Total non-operating income	<u>367</u>	<u>1,089</u>
Net income and required allocation to education (note 6)	<u>\$ 1,579,577</u>	<u>1,446,899</u>

See accompanying notes to financial statements.

NEW YORK STATE LOTTERY
Statements of Cash Flows
Years ended March 31, 2002 and 2001
(In thousands)

	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:		
Cash received from ticket sales	\$ 4,681,333	4,133,634
Cash payments for prizes	(2,789,556)	(2,444,831)
Cash payments for commissions and fees	(401,461)	(354,568)
Cash payments for ticket printing	(21,161)	(10,403)
Cash payments for administrative expenses	(83,765)	(85,914)
Net cash provided by operating activities	<u>1,385,390</u>	<u>1,237,918</u>
Cash flows from investing activities:		
Proceeds from investment maturities	217,778	213,777
Purchases of investments	(52,979)	(40,575)
Interest on cash and cash equivalents	3,984	8,691
Net proceeds from swaps of investment securities	5,409	620
Other cash receipts, net	367	1,089
Net cash provided by investing activities	<u>174,559</u>	<u>183,602</u>
Cash flows from noncapital financing activities:		
Cash transfer to education	(1,561,497)	(1,392,997)
Cash flows from capital financing activities:		
Disposal of equipment	—	34
Cash payments for equipment and leasehold improvements	—	(110)
Net cash used by capital financing activities	<u>—</u>	<u>(76)</u>
Net (decrease) increase in cash and cash equivalents	(1,548)	28,447
Cash and cash equivalents, beginning of year	<u>182,873</u>	<u>154,426</u>
Cash and cash equivalents, end of year	<u>\$ 181,325</u>	<u>182,873</u>

(Continued)

NEW YORK STATE LOTTERY
Statements of Cash Flows
Years ended March 31, 2002 and 2001
(In thousands)

	<u>2002</u>	<u>2001</u>
Reconciliation of net income and required allocation to education to net cash provided by operating activities:		
Net income and required allocation to education	\$ 1,579,577	1,446,899
Adjustments to reconcile net income and required allocation to education to net cash provided by operating activities:		
Investment income	(65,506)	(219,081)
Other income	(367)	(1,089)
Depreciation and amortization	65	535
Amortization of discount on prizes payable	115,045	120,455
Change in operating assets and liabilities:		
Increase in accounts receivable, net	(72,356)	(48,828)
Increase in ticket inventory	(2,877)	(814)
Decrease in prizes payable	(172,791)	(156,930)
(Decrease) increase in unclaimed and future prizes	(1,647)	82,726
(Decrease) increase in due to administration	(4,944)	3,097
Increase (decrease) in deferred revenue	504	(2,116)
Increase in other payables and liabilities	10,687	13,064
Net cash provided by operating activities	<u>\$ 1,385,390</u>	<u>1,237,918</u>

See accompanying notes to financial statements.

NEW YORK STATE LOTTERY

Notes to Financial Statements

March 31, 2002 and 2001

(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 accounting principles generally accepted in the United States of America, whereby revenue is recognized when earned and expenses are recognized when incurred.

(a) Revenue Recognition

(i) On-line Games

Revenue from ticket sales for Lotto, Quick Draw, Take Five, Pick 10, 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 Millennium Millions promotional game was recognized consistent with online 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).

(c) Accounts Receivable

Accounts receivable represents amounts due from the Lottery games contractor, net of commissions and fees, as well as amounts due from agents for instant cash game tickets which have been activated, but not yet settled. Settlement of instant tickets occur when 60% of the prizes of a book of tickets are redeemed or 45 days has passed, whichever comes first.

NEW YORK STATE LOTTERY

Notes to Financial Statements

March 31, 2002 and 2001

(d) 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 20% for the New York State Lottery instant cash games, 35% for Take Five, Numbers, Win-4 and Pick 10, 45% for Lotto and Millennium Millions promotional game, and 25% for Quick Draw.
- Allocations of ticket sales revenue for the payment of lottery prizes not to exceed 65% for the New York State Lottery instant cash games, 50% for Take Five, Numbers, Win-4, and Pick 10, 40% for Lotto and Millennium Millions promotional game, and 60% for Quick Draw.
- Allocations of ticket sales revenue from all games for the payment of Lottery administrative expenses (including agent commissions and contractor fees) not to exceed 15%. Any excess of the maximum allocation over administrative expenses is allocated to education. Such allocations amounted to approximately \$194,778,000 and \$161,861,000 for fiscal years 2002 and 2001, respectively. Administrative 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.

(e) Cash and Cash Equivalents

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

(f) Investments

Investments, consisting of U.S. Government-backed obligations (zero coupon bonds and stripped Government securities), are carried at fair value. Investment income represents amortized discount, realized gains and losses, and change in net unrealized gains on investments.

(g) 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, unused inventory is included in printing expense.

(h) 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.

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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 in the period of disposal.

(i) Prizes Payable

Lotto jackpot players have the option of selecting a lump sum payment in lieu of long term annuity payments. Prizes payable represents the liability for those prizes which are payable in annual installments. Such prize payments are funded by the Lottery's investment in U.S. Government-backed securities. The periodic amortization of discount is recorded as investment expense in these financial statements. Any excess of investment maturities over prize payments is made available for prizes.

(j) Unclaimed and Future Prizes

Unclaimed prizes at March 31, 2002 and 2001 were \$152,505,000 and \$148,916,000, respectively. Prizes unclaimed for one year after the drawing date (lapsed) are forfeited by the ticket holder. Total prizes lapsed amounted to approximately \$65,787,000 and \$36,085,000 for fiscal years 2002 and 2001, respectively.

Under the Tax Law, the Lottery retains forfeited prizes for supplemental prizes in subsequent Lottery games. During the fiscal years 2002 and 2001, these supplemental prizes were used for Lotto, various Instant Games and Millennium Millions, a limited promotional game.

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. Also included in future prizes is an amount equivalent to the net unrealized gain on investments of approximately \$123 million and \$182 million at March 31, 2002 and 2001 respectively. These funds must be available for the payment of installment prizes in future periods.

(k) Indirect Prize Expense

Prize expense not directly related to game sales is shown as indirect prize expense. This category includes interest earnings on the Lottery Prize account, gains on investment exchanges through the securities swaps program, and investment gain on maturities in excess of required prize payments due to rounded buys, which are to be used as future prizes.

(l) Reclassification

Certain amounts in the 2001 financial statements have been reclassified to conform to the 2002 presentation.

NEW YORK STATE LOTTERY

Notes to Financial Statements

March 31, 2002 and 2001

(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 Commissioner of Taxation and Finance and the 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 \$184,898,000 and \$186,656,000 at March 31, 2002 and 2001, respectively. The carrying value of cash equivalents approximates market value. 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. The Lottery manages the investment of its cash balances to minimize its uninvested funds. At March 31, 2002 and 2001 the amount of accounts included in cash and cash equivalents related to the sole custody accounts were \$(3,573,000) and \$(3,783,000), 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 and treasury strips), which will provide for the payment of prizes payable (see note 5). During fiscal years 2002 and 2001, approximately \$115,451,000 and \$120,861,000, respectively, of amortized discount was included in investment income.

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

	2002	2001
Maturity value	\$ 2,331,403	2,438,094
Less: unamortized discount	846,651	903,993
Total carrying value	1,484,752	1,534,101
Less: investments, maturing within one year, at amortized cost	213,000	208,797
Long-term investments, at amortized cost	\$ 1,271,752	1,325,304
Total fair value of investments	\$ 1,607,540	1,716,227

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Notes to Financial Statements

March 31, 2002 and 2001

Maturities of the investments in each of the five fiscal years following March 31, 2002, and the total thereafter, are as follows (in thousands):

2003	\$	221,208
2004		221,999
2005		207,758
2006		192,682
2007		176,776
Thereafter		<u>1,310,980</u>
	\$	<u>2,331,403</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 2002, the face value of the securities swapped amounted to \$557,105,000 resulting in a gain of approximately \$5,409,000. This gain is included in investment income in the statement of revenue and expenses.

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>2002</u>	<u>2001</u>
Equipment	\$	2,412	2,412
Leasehold improvements		<u>4,526</u>	<u>4,526</u>
		6,938	6,938
Less: accumulated depreciation and amortization		<u>6,773</u>	<u>6,708</u>
Equipment and leasehold improvements, net	\$	<u>165</u>	<u>230</u>

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Notes to Financial Statements

March 31, 2002 and 2001

(5) Prizes Payable

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

		<u>2002</u>	<u>2001</u>
Total obligation	\$	2,361,787	2,519,179
Unamortized discount		<u>(850,586)</u>	<u>(950,231)</u>
Total carrying amount		1,511,201	1,568,948
Less: prizes payable within one year		<u>217,550</u>	<u>212,445</u>
Long-term prizes payable	\$	<u><u>1,293,651</u></u>	<u><u>1,356,503</u></u>

The amortized discount on the prizes payable is based on interest rates which range from 1.97% 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 investment expense in the statements of revenue and expenses and amounted to \$115,045,000 and \$120,455,000 for fiscal years 2002 and 2001, respectively.

The aggregate amount of prizes payable due in each of the five fiscal years following March 31, 2002, and the total thereafter, is as follows (in thousands):

2003	\$	221,509
2004		222,108
2005		213,421
2006		194,091
2007		178,436
Thereafter		<u>1,332,222</u>
	\$	<u><u>2,361,787</u></u>

(6) Education Revenue

Net income and required allocation to education during the fiscal years ended March 31, 2002 and 2001, are as follows (in thousands):

		<u>2002</u>	<u>2001</u>
Revenue transferred to education	\$	1,561,497	1,392,997
Prior year payable		<u>(115,582)</u>	<u>(61,680)</u>
Amount transferred from current year revenue		1,445,915	1,331,317
Current year payable		<u>133,662</u>	<u>115,582</u>
Net income and required allocation to education	\$	<u><u>1,579,577</u></u>	<u><u>1,446,899</u></u>

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Notes to Financial Statements

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(7) Pension Benefits

Substantially all employees of the Lottery are members of the New York State and Local Employees' Retirement Systems (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 Systems, 110 State Street, Albany, New York 12236.

The System provides retirement benefits as well as death and disability benefits. All benefits vest after five 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 for their first ten years of employment; the Lottery contributes the balance payable to the System for these employees.

The Lottery paid to the New York State Comptroller's Office \$553,000 for 2002, \$584,000 for 2001, and \$577,000 for 2000, to cover required employer contributions for retirement benefits. These payments made represent 3.67%, 4.00% and 4.22% of covered payroll for each of the years, respectively.

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Notes to Financial Statements

March 31, 2002 and 2001

(8) Segment Information

Segment information for fiscal 2002 and 2001 by type of lottery game is as follows (in thousands):

	2002					
	Revenue	Expenses				Net
		Prizes	Commissions	Fees	Ticket printing	
Lotto	\$ 565,287	(226,115)	(33,047)	(8,275)		297,850
Take Five	434,856	(217,428)	(26,092)	(6,552)		184,784
Pick 10	37,789	(18,894)	(2,267)	(569)		16,059
Numbers	736,534	(368,267)	(44,191)	(11,083)		312,993
Win-4	523,789	(261,895)	(31,425)	(7,879)		222,590
Instant Cash Games	1,966,521	(1,278,239)	(117,991)	(70,621)	(15,476)	484,194
Quick Draw	488,842	(293,305)	(29,331)	(13,650)		152,556
	<u>\$ 4,753,618</u>	<u>(2,664,143)</u>	<u>(284,344)</u>	<u>(118,629)</u>	<u>(15,476)</u>	<u>1,671,026</u>
Administrative expenses						(91,816)
Investment income						65,506
Indirect prize expense						(65,506)
Other income						<u>367</u>
Net income and required allocation to education						<u>\$ 1,579,577</u>

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Notes to Financial Statements

March 31, 2002 and 2001

		2001					
		Expenses					
	Revenue	Prizes	Commissions	Fees	Ticket printing	Net	
Millennium	\$ 121,014	(48,406)	(7,261)	(1,846)		63,501	
Lotto	558,483	(223,393)	(32,547)	(8,252)		294,291	
Take Five	388,283	(194,141)	(23,297)	(5,921)		164,924	
Pick 10	41,575	(20,788)	(2,494)	(634)		17,659	
Numbers	709,126	(354,563)	(42,547)	(10,814)		301,202	
Win-4	472,354	(236,177)	(28,341)	(7,203)		200,633	
Instant Cash Games	1,386,117	(891,087)	(83,167)	(55,491)	(12,373)	343,999	
Quick Draw	508,378	(305,027)	(30,503)	(14,649)		158,199	
	\$ 4,185,330	(2,273,582)	(250,157)	(104,810)	(12,373)	1,544,408	
Administrative expenses						(98,598)	
Investment income						219,081	
Indirect prize expense						(219,081)	
Other income						1,089	
Net income and required allocation to education							\$ <u>1,446,899</u>

(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.

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March 31, 2002 and 2001

(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 or on behalf of its former employees.

(11) Commitments and Contingencies

(a) Contractual Arrangements

The Lottery maintains a gaming network of over 15,000 on-line locations where all games are sold and over 100 off-line locations which sell only instant cash game tickets. GTECH Corporation (GTECH) is responsible for operating all Lottery games under a contract expiring on March 1, 2007. Instant cash game sales are also supported by the services of three contractors:

- (1) Under a contract expiring March 25, 2004, Pollard Banknote Limited is responsible for production of instant cash tickets.
- (2) Under a contract expiring October 15, 2004, Scientific Games, Inc. is a back-up ticket supplier.
- (3) Instant cash tickets are also sold through vending machines at approximately 4,400 locations. A contract with Interlott, Inc., which expires on April 30, 2002, provides for maintenance of the vending machines.

(b) Operating Leases

The Lottery has entered into operating leases for equipment and building space. Rental expense was \$4,562,000 and \$4,155,000 in 2002 and 2001, 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, 2002:

2003	S	4,642,000
2004		3,425,000
2005		2,895,000
2006		2,018,000
2007		821,000
Thereafter		<u>2,080,000</u>
Total minimum lease payments	S	<u>15,881,000</u>

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(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 \$11,600,000 at March 31, 2002, which have a fair value that approximates \$11,200,000. For contracts other than investment contracts, the insurance companies are making annual payments to approximately 69 individuals totaling approximately \$1,200,000 as of March 31, 2002.

(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.