

NEW YORK STATE LOTTERY

**Financial Statements and Supplementary Information
Years Ended March 31, 2019 and 2018
With Independent Auditor's Report**



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NEW YORK STATE LOTTERY
Financial Statements and Supplementary Information
Years Ended March 31, 2019 and 2018

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INDEPENDENT AUDITOR'S REPORT

Gaming Commissioners and Senior Management
The New York State Gaming Commission

Report on the Financial Statements

We have audited the accompanying statements of net position of the New York State Lottery (the Lottery), an enterprise fund of the State of New York, as of March 31, 2019 and 2018, and the related statements of revenue, expenses, and change in net position and cash flows for the years then ended, and the related notes to the basic financial statements.

Management's Responsibility for the Financial Statements

The Lottery's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the New York State Lottery as of March 31, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the Lottery's financial statements present only the New York State Lottery enterprise fund of the State of New York and do not purport to, and do not, present fairly the financial position of the State of New York, as of March 31, 2019 and 2018, the change in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the financial statements, as of April 1, 2018, the Lottery adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Plans Other Than Pension Plans (OPEBs)*. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the required schedules of the Lottery's proportionate share of the net pension liability for New York State and Local Employees' Retirement System, the Lottery's contributions for the New York State and Local Employees' Retirement System, and changes in the Lottery's total other postemployment benefits liability and related ratios on pages 3 through 9 and 37 through 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Mitchell Titus, LLP

July 8, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The management of the New York State Lottery (New York Lottery or Lottery) offers readers the following general overview and analysis of the New York Lottery's financial position and activities for the fiscal years ended March 31, 2019 and 2018. We encourage readers to consider this information in conjunction with the detailed financial statements and explanatory notes that follow. The New York Lottery's basic financial statements for the fiscal years ended March 31, 2019 and 2018 have been prepared in accordance with accounting principles generally accepted in the United States of America.

FINANCIAL HIGHLIGHTS

- New York Lottery revenues totaled \$10.291 billion, while net proceeds earned for Lottery Aid to Education reached \$3.474 billion for fiscal year 2019.
- New York Lottery revenues, net in fiscal year 2019 were greater than the net revenues of 2018 by \$317 million, or 3.2%. In fiscal year 2018, the annual revenue increased by \$297.8 million, or 3.1%.
- Net proceeds earned for Lottery Aid to Education in fiscal year 2019 were greater than the net proceeds of 2018 by \$102.2 million, or 3.0%. Comparatively, the annual earnings for education in fiscal year 2018 were greater than the net proceeds of 2017 by \$104 million, or 3.2%.
- Prize expense increased by \$103.7 million, or 2.2%, during fiscal year 2019. Prize expense increased by \$176.8 million, or 3.8%, during fiscal year 2018. Prize expense generally follows the changes occurring in sales of the corresponding games.
- Operating income increased by \$136 million, or 4.0%, during fiscal year 2019. Operating income increased by \$81.8 million, or 2.5%, during fiscal year 2018.
- Nonoperating income increased by \$44.2 million during fiscal year 2019 after increasing by \$41.6 million during fiscal year 2018. Changes in this category are generally the result of unrealized gains/losses on investments, which can change by large amounts in either direction from year to year.
- Working capital (current assets minus current liabilities) increased by \$46.1 million in fiscal year 2019 after increasing by \$37.9 million in fiscal year 2018.

OVERVIEW OF FINANCIAL STATEMENTS

The New York Lottery presents its financial statements using the accrual basis of accounting, which is comparable to the method used by many private sector businesses. The accrual basis recognizes revenues when earned, not when received. Likewise, expenses are recognized when incurred, not when paid. The Lottery prepares the following three financial statements for fiscal years 2019 and 2018:

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

OVERVIEW OF FINANCIAL STATEMENTS *(continued)*

Statements of Net Position – This statement provides information on the nature and amount of the Lottery's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position at the close of fiscal years 2019 and 2018. The relationship of assets and deferred outflows of resources to liabilities and deferred inflows of resources and resulting net position is one indicator of the financial condition of the Lottery and can also be a reflection of changes within the Lottery.

Statements of Revenue, Expenses, and Changes in Net Position – This statement reflects the Lottery's operating and nonoperating revenues and expenses and the change in net position for the 2019 and 2018 fiscal years.

Statements of Cash Flows – This statement is presented on the direct method of reporting and reflects cash flows from operating activities as well as capital and noncapital financing and investing activities for the 2019 and 2018 fiscal years. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash and cash equivalents for the year.

The above-mentioned financial statements, the notes to the financial statements and this management's discussion and analysis provide information about the Lottery's overall financial condition.

This management's discussion and analysis is meant to be an introduction to the financial statements and to assist readers in understanding the results of the operations and the financial condition of the New York Lottery. The notes to the financial statements are an integral part of the statements and include additional data and explanations, which are to be used in concert with the financial statements.

Following the notes to the financial statements are pension and other postemployment benefits (OPEB) schedules, presented as Required Supplementary Information, which provide details on the Lottery's net pension and OPEB liability and contributions.

The New York Lottery deposits its net proceeds into six accounts held in joint custody by the Commissioner of Taxation and Finance and the State Comptroller. These six accounts and the purpose of the funds are as follows:

- Lottery Education Account – Accumulates the required deposits for Aid to Education from revenues, not including video gaming revenues.
- Prize Pending Account – Consists of Lottery prizes claimed but not yet paid from revenues, excluding video gaming revenues.
- Administration Account – Utilized to pay for the Lottery's administrative costs that are not related to or funded by video gaming revenues.
- Video Gaming Education Account – Accumulates the required deposits for Aid to Education from video gaming operations.
- Video Gaming Prize Pending Account – Consists of video gaming prizes awarded that have not yet been claimed.

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)

OVERVIEW OF FINANCIAL STATEMENTS *(continued)*

- Video Gaming Administration Account – Utilized to pay the administrative costs of video gaming.

FINANCIAL ANALYSIS

Summary of Net Position – The comparative summary of net position represents the Lottery’s financial position as of the fiscal years 2019, 2018 and 2017 (in millions):

	FY 2019	FY 2018	FY 2017	FY 2019 vs. FY 2018		FY 2018 vs. FY 2017	
				Dollar change	Percent change	Dollar change	Percent change
Capital assets	\$ -	\$ -	\$ -	\$ -	- %	\$ -	- %
Other assets	2,846	2,556	2,572	290	11.3	(16)	(0.6)
Total assets	2,846	2,556	2,572	290	11.3	(16)	(0.6)
Total deferred outflows of resources	6	5	9	1	20.0	(4)	(44.4)
Current liabilities	1,324	1,051	1,000	273	26.0	51	5.1
Noncurrent liabilities	1,175	1,158	1,214	17	1.5	(56)	(4.6)
Total liabilities	2,499	2,209	2,214	290	13.1	(5)	(0.2)
Total deferred inflows of resources	8	1	1	7	700.0	-	-
Restricted net position	255	200	184	55	27.5	16	8.7
Unrestricted net position	90	151	182	(61)	(40.4)	(31)	(17.0)
Total net position	\$ 345	\$ 351	\$ 366	\$ (6)	(1.7)%	\$ (15)	(4.1)%

Capital Assets – Capital assets consist of equipment and leasehold improvements. During fiscal year 2019, a capital asset was added and several were disposed. Additional information about the Lottery’s capital assets can be found in Note 1 of the notes to the basic financial statements.

Other Assets – Other assets consist of cash and cash equivalents, accounts receivable, instant ticket inventory, and investments. During fiscal year 2019, other assets increased by \$290.4 million, which represented an increase of 11.4% from the previous year. This increase was primarily a result of an increase in cash and cash equivalents due to increases in prizes pending and cash on hand to be transferred to Education. In fiscal year 2018, other assets decreased by \$15.3 million, which represented a decrease of 0.6% from the previous year.

Deferred Outflows of Resources – Deferred outflows of resources relate to deferred pension costs determined in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27* (GASB 68) and deferred other postemployment benefits (OPEB) determined in accordance with GASB 75. Deferred outflows of resources increased by \$1.2 million in fiscal year 2019, which was a 24.8% increase. The increase was due to the adoption and implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (GASB 75).

Current Liabilities – Current liabilities consist of prizes awarded in the past year that remain unclaimed, amounts due to Education, accrued expenses, accounts payable, the value of Lottery tickets purchased in advance of game drawings (unearned ticket sales), and the short-term portion of long-term prizes payable and amounts due to employees for unused vacation leave. In total, these accounts increased by \$273.1 million during fiscal year 2019. This change can be compared to the fiscal year ended March 31, 2018 when there was a \$51.1 million annual increase in total current liabilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FINANCIAL ANALYSIS *(continued)*

Noncurrent Liabilities – Noncurrent liabilities consist of amounts due to be paid more than one year after the close of the fiscal year for installment prizes, pension and OPEB liabilities and unused employee vacation leave. During fiscal year 2019, noncurrent liabilities increased by \$16.3 million, with the net impact occurring primarily due to the increase of OPEB liability and a decrease of long-term prizes payable. During fiscal year 2018, noncurrent liabilities decreased by \$54.9 million, with the decrease occurring primarily in the category of long-term prizes payable. Additional information about the Lottery's noncurrent liabilities can be found in Note 5 of the notes to the financial statements.

Deferred Inflows of Resources – Deferred inflows of resources relate to deferred pension costs and deferred OPEB determined in accordance with GASB 68 and GASB 75, respectively. Deferred inflows of resources increased by \$7.4 million in fiscal year 2019, which was a 929.3% increase from the previous year. Deferred pension inflows increased primarily due to the net difference between projected and actual investment earnings on pension plan investments. Deferred OPEB inflows increased due to differences between expected and actual experience.

Net Position – Restricted net position for future prizes consists of prize funds that are in excess of prizes actually claimed at the fiscal year end, but which are necessary to ensure future prize payments. For example, prize funds from past sales are utilized to pay an accumulating or future New York Lotto, Powerball, Mega Millions or Cash 4 Life jackpot or contribute toward a created but unclaimed instant ticket prize. These amounts are available by statute for this purpose.

Unrestricted net position listed on the statement of net position is largely the cumulative result of increased fair value of the investments held by the Lottery to pay annuity prizes. Since the full maturity value of the investments is needed to pay the annuity prizes, the Lottery does not expect to realize any permanent gain on these investments. The beginning unrestricted net position for fiscal year 2019 was restated by \$67.4 million due to the implementation of GASB 75 (see Note 1).

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FINANCIAL ANALYSIS *(continued)*

Summary of Revenue, Expenses, and Changes in Net Position – The following summary compares the Lottery's revenues, expenses and changes in net position for the fiscal years 2019, 2018 and 2017 (in millions).

	FY 2019	FY 2018	FY 2017	FY 2019 vs. FY 2018		FY 2018 vs. FY 2017	
				Dollar change	Percent change	Dollar change	Percent change
<i>Operating revenue</i>							
Lottery revenue, net	\$ 10,291	\$ 9,974	\$ 9,676	\$ 317	3.2 %	\$ 298	3.1%
<i>Operating expenses</i>							
Direct expenses	(6,652)	(6,478)	(6,256)	174	2.7	222	3.5
Indirect expenses	(135)	(127)	(133)	8	6.3	(6)	(4.5)
Total operating expenses	(6,787)	(6,605)	(6,389)	182	2.8	216	3.4
Operating income	3,504	3,369	3,287	135	4.0	82	2.5
<i>Nonoperating income (expenses)</i>							
Nonoperating income	85	42	8	43	102.4	34	425.0
Nonoperating expenses	(53)	(55)	(62)	(2)	3.6	(7)	(11.3)
Total nonoperating income (expenses)	32	(13)	(54)	45	346.2	41	75.9
Income before required allocation	3,536	3,356	3,233	180	5.4	123	3.8
Required allocation – contribution for aid to Education	(3,474)	(3,372)	(3,268)	102	3.0	104	3.2
Change in net position	62	(16)	(35)	78	(487.5)	19	(54.3)
Net position beginning of year (restated)	283	367	402	(84)	(22.9)	(35)	(8.7)
Net position end of year	\$ 345	\$ 351	\$ 367	\$ (6)	(1.7)%	\$ (16)	(4.4)%

Revenues – The New York Lottery exists for the sole purpose of raising revenue to help support Aid to Education. The Lottery achieves its mission through the sale of Lottery tickets at approximately 17,500 licensed retail locations across the state. The Lottery also achieves its mission through 10 licensed video lottery gaming facilities located in Saratoga, Monticello, Farmington, Hamburg, Batavia, Vernon, Yonkers, Suffolk and New York City (two facilities).

During fiscal year 2019, the Lottery achieved \$4.0 billion in draw sales, \$4.2 billion in instant sales, and \$2.1 billion in video lottery gaming net machine income for a total of \$10.3 billion, an increase of \$317 million, or 3.2%, over the previous fiscal year. During fiscal year 2018, the Lottery achieved \$3.8 billion in draw sales, \$4.2 billion in instant sales, and \$2.0 billion in video lottery gaming net machine income for a total of \$10.0 billion, an increase of \$297.8 million, or 3.1%, over the previous fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FINANCIAL ANALYSIS (continued)

The following table shows a comparison of the Lottery's revenues by game and the percentage of total revenues by game for the fiscal years 2019, 2018 and 2017 (in millions):

Game	FY 2019		FY 2018		FY 2017	
	Revenue	Percent of total revenues	Revenue	Percent of total revenues	Revenue	Percent of total revenues
Mega Millions	\$ 480	4.6%	\$ 312	3.1%	\$ 285	3.0%
Lotto	69	0.7	71	0.7	79	0.8
Take 5	242	2.4	238	2.4	234	2.4
Numbers	912	8.9	887	8.9	898	9.3
Win 4	955	9.3	927	9.3	921	9.5
Quick Draw	814	7.9	793	8.0	794	8.2
Pick 10	31	0.3	30	0.3	29	0.3
Powerball	390	3.8	408	4.1	349	3.6
Other Multi-State Draw Games *	88	0.9	94	0.9	89	0.9
Instant	4,228	41.0	4,179	41.9	4,001	41.4
Subtotal traditional lottery	8,209	79.8	7,939	79.6	7,679	79.4
Video gaming, net **	2,082	20.2	2,035	20.4	1,997	20.6
Total revenues	\$ 10,291	100.0%	\$ 9,974	100.0%	\$ 9,676	100.0%

* Other Multi-State Draw Games include Cash 4 Life.

** Video gaming revenue represents net machine income after awarding prizes. Video gaming credits played and won were as follows:

	FY 2019	FY 2018	FY 2017
Credits played	\$ 39,670	\$ 38,325	\$ 37,063
Credits won	(37,588)	(36,290)	(35,066)
Net machine income	\$ 2,082	\$ 2,035	\$ 1,997

Direct Expenses – Direct expenses consist of prize expense for traditional Lottery games, commissions to Lottery retailers and video lottery gaming facilities, fees to gaming contractors, expenses of providing instant tickets to players, and telecommunications. The largest expenditure in this category is prize expense, which made up 74% of direct expenses during each of the three years being presented. Prizes increased by \$103.7 million to \$4.9 billion in fiscal year 2019. At the same time, retailer commissions increased by \$67.3 million to \$1.5 billion and gaming contractor fees increased by \$5.8 million to \$234.8 million.

Prizes increased by \$176.8 million to \$4.8 billion in fiscal year 2018. At the same time, retailer commissions increased by \$42.8 million to \$1.4 billion and gaming contractor fees increased by \$2.1 million to \$229 million.

Indirect Expenses – Indirect expenses include marketing, state agency charges, personal services, fringe benefits and other administrative costs. These costs were \$135 million during fiscal year 2019, an increase of 6.0% from the prior year. Corresponding costs in fiscal year 2018 were \$127.3 million, which was 4.5% lower than in fiscal year 2017.

Nonoperating Revenues (Expenses) – Nonoperating revenues and expenses consist of miscellaneous income plus the net growth or decline in the fair value of investments used to fund long-term prizes. Investment income of \$82.7 million in 2019, income of \$31.3 million in 2018, and loss of \$5.0 million in 2017 consists of both the fair value adjustments of investments plus the normal growth of the value of Lottery investments as the securities move closer to maturity. The market-driven fair value adjustment, which is subject to considerable variance over time, is the primary factor in causing any large differences from year to year. Investment

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FINANCIAL ANALYSIS *(continued)*

expense is a reflection of the Lottery expending the investment income to increase the valuation of the long-term prizes payable to winners. The amortized discount of prizes payable decreased by \$2.1 million from \$54.9 million in fiscal year 2018 to \$52.8 million in fiscal year 2019. The annual fair value adjustment of investments flows to the unrestricted net position balance on the statements of net position.

Income before Required Allocation and Change in Net Position – The revenues and expenses for fiscal year 2019 resulted in income before required allocation totaling \$3.5 billion. This amount consists of a required allocation for Aid to Education of \$3.5 billion that transfers out as a contribution for Aid to Education and an \$62.3 million increase in net position for the year. The \$62.3 million increase in net position is a combination of a \$55.3 million increase in net position restricted for prizes and a \$7 million increase in unrestricted net position. The revenues and expenses for fiscal year 2018 resulted in income before required allocation totaling \$3.4 billion. This amount consists of a required allocation for Aid to Education of \$3.4 billion that transfers out as a contribution for Aid to Education and an \$15.7 million decrease in net position for the year. The \$15.7 million decrease in net position is a combination of a \$16 million increase in net position restricted for prizes and a \$31.7 million decrease in unrestricted net position.

Summary and Outlook – As a mature business entity, the New York Lottery generally anticipates only moderate but steady growth from year to year. An opportunity to move beyond normal growth would not be expected unless there were an addition of new games or an expansion in gaming facilities.

Contacting New York Lottery's Financial Management – This financial report is designed to provide the State of New York, the public, and other interested parties with an overview of the financial results of the New York State Lottery and an explanation of the Lottery's financial condition. If you have any questions about this report or require additional information, email info@gaming.ny.gov or write to The New York State Gaming Commission Communications Office, One Broadway Center, P.O. Box 7500, Schenectady, NY 12301-7500.

NEW YORK STATE LOTTERY

Statements of Net Position

March 31, 2019 and 2018

(In thousands)

	<u>2019</u>	<u>2018</u>
ASSETS		
<i>Current assets</i>		
Cash and cash equivalents	\$ 1,015,964	\$ 719,472
Accounts receivable, net	506,596	490,121
Instant ticket inventory	11,979	12,357
Investments	<u>108,608</u>	<u>102,064</u>
Total current assets	<u>1,643,147</u>	<u>1,324,014</u>
<i>Noncurrent assets</i>		
Long-term investments, net	1,203,443	1,232,136
Capital assets	<u>92</u>	<u>-</u>
Total noncurrent assets	<u>1,203,535</u>	<u>1,232,136</u>
Total assets	2,846,682	2,556,150
Deferred outflows of resources	<u>5,936</u>	<u>4,757</u>
Total assets and deferred outflows of resources	<u>2,852,618</u>	<u>2,560,907</u>
LIABILITIES		
<i>Current liabilities</i>		
Prizes payable	135,733	131,535
Unclaimed prizes	599,321	587,571
Due to Education	576,744	303,497
Accounts payable and accrued liabilities	798	16,887
Unearned ticket sales	10,197	10,321
Compensated absences	<u>1,101</u>	<u>1,002</u>
Total current liabilities	<u>1,323,894</u>	<u>1,050,813</u>
<i>Noncurrent liabilities</i>		
Compensated absences	222	202
Pension contribution payable	1,462	2,562
Net pension liability	1,719	4,839
Other postemployment benefits	66,030	-
Long-term prizes payable	<u>1,105,592</u>	<u>1,151,104</u>
Total noncurrent liabilities	<u>1,175,025</u>	<u>1,158,707</u>
Total liabilities	<u>2,498,919</u>	<u>2,209,520</u>
Deferred inflows of resources	<u>8,214</u>	<u>798</u>
Total liabilities and deferred inflows of resources	<u>2,507,133</u>	<u>2,210,318</u>
NET POSITION		
Restricted for future prizes	255,249	200,031
Invested in capital assets	92	-
Unrestricted	<u>90,144</u>	<u>150,558</u>
Total net position	<u>\$ 345,485</u>	<u>\$ 350,589</u>

See accompanying notes to basic financial statements.

NEW YORK STATE LOTTERY

Statements of Revenue, Expenses, and Changes in Net Position

Years Ended March 31, 2019 and 2018

(In thousands)

	<u>2019</u>	<u>2018</u>
OPERATING REVENUE		
Lottery revenue, net	\$ 10,290,550	\$ 9,973,519
<i>Operating expenses</i>		
Prize expense, net	(4,919,620)	(4,815,903)
Retailer commissions	(1,455,593)	(1,388,320)
Gaming contractor fees	(234,806)	(228,984)
Instant ticket direct expenses	(23,313)	(26,079)
Telecommunications	(17,876)	(18,612)
Total direct expenses	<u>(6,651,208)</u>	<u>(6,477,898)</u>
Marketing and advertising expense	(90,907)	(81,526)
Personal service and fringe benefits	(32,163)	(29,565)
Other administrative costs	(5,522)	(10,090)
State agency charges	(6,436)	(6,133)
Depreciation	(8)	-
Total indirect expenses	<u>(135,036)</u>	<u>(127,314)</u>
Total operating expenses	<u>(6,786,244)</u>	<u>(6,605,212)</u>
Operating income	<u>3,504,306</u>	<u>3,368,307</u>
NONOPERATING REVENUE (EXPENSES)		
Investment income	82,682	31,254
Other revenue, net	2,099	11,398
Investment expense, net	(52,754)	(54,867)
Total nonoperating revenue (expenses), net	<u>32,027</u>	<u>(12,215)</u>
Income before required allocation	3,536,333	3,356,092
Required allocation for aid to Education	(3,474,041)	(3,371,868)
Change in net position	62,292	(15,776)
Net position, beginning of year (as restated)	283,193	366,365
Net position, end of year	<u><u>\$ 345,485</u></u>	<u><u>\$ 350,589</u></u>

See accompanying notes to basic financial statements.

NEW YORK STATE LOTTERY
Statements of Cash Flows
Years Ended March 31, 2019 and 2018
(In thousands)

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from net lottery revenue	\$ 10,263,913	\$ 9,948,242
Cash payments for prizes	(5,005,649)	(4,863,884)
Cash payments for commissions	(1,455,608)	(1,388,297)
Cash payments for contractor fees	(234,350)	(228,212)
Cash payments for telecommunications	(17,876)	(18,612)
Cash payments for instant ticket direct expenses	(24,171)	(26,413)
Cash payments for other operating expenses	(135,918)	(133,358)
Other cash receipts	2,100	11,398
Net cash provided by operating activities	<u>3,392,441</u>	<u>3,300,864</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from investment maturities	103,280	102,786
Purchases of investments	(43,200)	-
Interest on cash and cash equivalents and investments	44,866	33,557
Net cash provided by investing activities	<u>104,946</u>	<u>136,343</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash transfer to State for Aid to Education	(3,200,794)	(3,361,341)
Net cash used in noncapital financing activities	<u>(3,200,794)</u>	<u>(3,361,341)</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Purchases of capital assets, net of disposals	(100)	-
Net cash used in capital financing activities	<u>(100)</u>	<u>-</u>
Net change in cash and cash equivalents	296,493	75,866
Cash and cash equivalents, beginning of year	719,472	643,606
Cash and cash equivalents, end of year	<u><u>\$ 1,015,965</u></u>	<u><u>\$ 719,472</u></u>
<i>Reconciliation of operating income to net cash provided by operating activities</i>		
Operating income	\$ 3,504,306	\$ 3,368,307
<i>Adjustments to reconcile operating income to net cash provided by operating activities</i>		
Depreciation	8	-
Other cash receipts	1,984	11,293
Investment expense	(52,754)	(54,867)
<i>Change in operating assets, deferred outflows, liabilities and deferred inflows</i>		
Change in accounts receivable, net	(16,475)	(13,259)
Change in ticket inventory	378	(509)
Change in prizes payable	(41,312)	(51,025)
Change in unclaimed prizes	11,750	36,975
Change in compensated absences	119	(140)
Change in deferred outflows	(1,180)	4,433
Change in net pension liability	(3,120)	(3,485)
Change in other postemployment benefits	(1,366)	-
Change in deferred inflows	7,416	(217)
Change in pension contribution payable	(1,100)	401
Change in accounts payable and accrued liabilities	(16,089)	2,246
Change in unearned ticket sales	(124)	711
Net cash provided by operating activities	<u><u>\$ 3,392,441</u></u>	<u><u>\$ 3,300,864</u></u>
<i>Noncash investing activities</i>		
Increase (decrease) in unrealized gains on investments	\$ 7,487	\$ (34,114)
Amortization of investment discount	30,444	31,916

See accompanying notes to basic financial statements.

NEW YORK STATE LOTTERY
Notes to Financial Statements
Years Ended March 31, 2019 and 2018

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The New York State Lottery (Lottery) was established in 1967. In 1976, the Lottery was placed under the Division of the Lottery, an independent unit of the New York State Department of Taxation and Finance, which operates in accordance with the provisions of the New York State Lottery for Education Law (Tax Law Article 34). On February 1, 2013, the Division of Lottery was merged with the New York State Racing and Wagering Board into a single oversight entity called the New York State Gaming Commission, which was given responsibility to administer traditional and video lottery games as part of its overall responsibility for regulation and enforcement of gaming activity in New York. The purpose of the Lottery is to raise revenue for education in the State of New York (State) through the administration of lottery games.

These financial statements represent only the Lottery and do not present the financial position of the State nor changes in the State's financial position and cash flows. However, the Lottery is included in the State of New York's basic financial statements as an enterprise fund.

Basis of Presentation

The Lottery applies all applicable Governmental Accounting Standards Board (GASB) pronouncements and prepares its financial statements under the economic resources measurement focus, whereby all inflows, outflows and balances affecting net position are reported, and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. The primary operating revenue of the Lottery is ticket sales from games. Nonoperating income consists mostly of investment income and unrealized gains on investments. Operating expenses consist of direct expenses for prizes, commissions to Lottery retailers, fees to gaming contractors, expenses for providing instant tickets to players, and telecommunications. Other operating expenses that are indirect to the results of each game include marketing, state agency charges, personal services, and fringe benefits. Nonoperating expense includes the amortization of the discount on long-term prizes payable.

The more significant accounting policies of the Lottery are described below:

Revenue Recognition

(i) Draw Games

Revenue from ticket sales for Lotto, Quick Draw, Take 5, Pick 10, Mega Millions, Powerball, Cash 4 Life, Numbers and Win-4 games, and promotional games (draw games) is recognized when the related drawing takes place. Receipts from subscription sales and other ticket sales for future drawings are recorded as unearned revenue and will not be recognized as revenue until the related drawings take place.

NEW YORK STATE LOTTERY
Notes to Financial Statements
Years Ended March 31, 2019 and 2018

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Revenue Recognition *(continued)*

(ii) Instant Games

Revenue from Instant 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 retailer locations.

(iii) Video Gaming

Revenue from video lottery gaming is recognized based on net machine income, which is defined as amounts played less prizes won.

Prize Expense

The Lottery recognizes prize expense for draw games equivalent to the actual prize liability incurred for each drawing. Prize expense for instant games is recognized when instant books are activated by retailers and is based on the percentage of sales allocated to prizes for each game. Video lottery revenue is reported net of prizes, so prize expense is not recognized on these games. Prize expense is adjusted accordingly for any prizes unclaimed within the time period allowed by law.

Commissions and Fees

Retailers selling draw and instant game tickets receive a commission of 6% based on the total tickets sold. Video gaming facilities receive a varying percent of incremental annual net machine income according to provisions of Section 1612 of the New York State Tax Law. The particular percent applied to a range of net machine income can vary depending on the facility's number of video gaming machines, geographical area of the state, population level, or proximity to Native American gaming facilities. The full-service Lottery system contractor and the video gaming central processing contractor receive fees equal to a contractual percentage of the sales generated through the network maintained by the respective contractor. Video lottery terminal contractors receive a fee equal to a contractual percentage of each contractor's revenue or a fee per device, adjusted for the units of service provided. All other gaming contractors are paid fees based on the units of service provided (see Note 13).

NEW YORK STATE LOTTERY
Notes to Financial Statements
Years Ended March 31, 2019 and 2018

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Accounts Receivable

Accounts receivable primarily represent amounts due from retailers through a Lottery gaming contractor and amounts due from video lottery gaming facilities, net of commissions and fees, as well as amounts due from agents for Instant Game tickets that have been activated, but not yet settled. Instant ticket settlements occur within 45 days after a book of tickets is activated. Video lottery gaming receivables are received two business days after each sales day and draw games are collected within four business days after the close of each sales week.

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 for educational purposes are to be at least 20% for the New York State Lottery Instant Games, 30% for multi-state games such as Mega Millions, Powerball, Cash 4 Life, 35% for Take 5, Numbers, Win-4, and Pick 10, 45% for Lotto and promotional games, and 25% for Quick Draw. In addition, the Lottery has statutory authority to issue up to five Instant Games per year with at least 10% for educational purposes. For video lottery, the required allocation to education is a varying percent of each facility's annual incremental net machine income, depending on factors such as the facility's number of video gaming machines, geographical area of the state, population level, and proximity to Native American gaming facilities.
- Allocations of ticket sales revenue for the payment of lottery prizes are not to exceed 65% for the New York State Lottery Instant Games, 55% for multi-state games such as Mega Millions, Powerball, Cash 4 Life, 50% for Take 5, Numbers, Win-4, and Pick 10, 40% for Lotto and 60% for Quick Draw. In addition, the Lottery has statutory authority to issue up to five Instant Games per year with up to 75% allocated to prizes. Video lottery is required to pay prizes that average no less than 90% of gross sales.
- Allocations of ticket sales revenue from all traditional games for the payment of Lottery administrative expenses (including agent commissions and contractor fees) are not to exceed 15%. For video lottery, 10% of net revenue (the total revenue wagered after payout for prizes) is allocated for Lottery Administration. Unlike traditional games, the video lottery administrative allocation does not include commissions and fees, which are described separately (see previously within Commissions and Fees). Any excess of the maximum allocation over actual administrative expenses is allocated to education. Such allocations amounted to approximately \$530,138,591 and \$512,648,584 for fiscal years 2019 and 2018, respectively. Administrative expenses incurred by the Lottery represent telecommunications, advertising, salary and other operating costs.

NEW YORK STATE LOTTERY
Notes to Financial Statements
Years Ended March 31, 2019 and 2018

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

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 (STIP), which is used for the temporary investment of funds not required for immediate payments.

Investments

Investments, consisting of U.S. Treasury bonds, U.S. Treasury strips, bonds guaranteed by U.S. Agency for International Development and New York City Transitional Finance Authority municipal bonds, are carried at fair value. Investment income represents accretion of bond discount, interest on bonds and deposits, and the change in fair value of investments.

Inventory

Instant game tickets are purchased from printing vendors. Tickets not activated for sale are held in inventory and are valued at cost by game. Tickets are charged to instant ticket direct expense under the first-in, first-out (FIFO) accounting method when activated for sale by the lottery retailers. At the conclusion of an instant game, unused inventory is charged to instant ticket direct expense.

Capital Assets

Capital assets consist of equipment and leasehold improvements, which are carried at historical cost. Equipment is capitalized when it has cost in excess of \$40,000 and a useful life of two years or more. Leasehold improvements are capitalized when they have a cost of \$100,000 or more. 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. Changes in capital assets and related accumulated depreciation are shown in the table below, by major class of asset, for the years ended March 31, 2019 and 2018 (in thousands).

	2017	Additions	Deletions	2018	Additions	Deletions	2019
<i>Leasehold improvements</i>							
Cost	\$ 4,526	\$ -	\$ -	\$ 4,526	\$ -	\$ -	\$ 4,526
Accumulated depreciation	(4,526)	-	-	(4,526)	-	-	(4,526)
Net value	-	-	-	-	-	-	-
<i>Equipment</i>							
Cost	1,911	-	-	1,911	100	(505)	1,506
Accumulated depreciation	(1,911)	-	-	(1,911)	(8)	505	(1,414)
Net value	-	-	-	-	92	-	92
Total	\$ -	\$ -	\$ -	\$ -	\$ 92	\$ -	\$ 92

NEW YORK STATE LOTTERY
Notes to Financial Statements
Years Ended March 31, 2019 and 2018

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Capital Assets *(continued)*

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 revenues, net in the period of disposal.

Prizes Payable

Lotto, Powerball, Mega Millions and Cash 4 Life jackpot players have the option of selecting a lump-sum payment or a long-term annuity payment. Some instant games also have jackpot prizes that are 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 investments. The amortization of the long-term annuity payment discount is recorded as investment expense in the accompanying statements of revenues, expenses and changes in net position. Any excess of investment maturities over related annuity prize payments is recorded in restricted net position and made available for future prizes.

Unclaimed Prizes

Unclaimed prizes at March 31, 2019 and 2018 were \$599,321,000 and \$587,571,000, respectively. Prizes unclaimed for one year after the drawing date (lapsed) are forfeited by the ticket holder. Total prizes lapsed amounted to approximately \$130,146,000 and \$84,685,000 for fiscal years 2019 and 2018, respectively. These forfeited prizes are netted against prize expense in the accompanying statements of revenue, expense, and changes in net position.

Under New York State Tax Law Section 1614, the Lottery retains forfeited prizes for supplemental prizes in subsequent lottery games. During the fiscal years 2019 and 2018, these supplemental prizes were used for Mega Millions, Powerball, Cash 4 Life, Lotto, Quick Draw, Take 5, Numbers, Win 4, and various Instant Games.

Restricted Net Position

Restricted net position for prizes includes forfeited prizes and other prize assets that are restricted under New York State Tax Law Sections 1612 and 1614 for the purpose of meeting future prize expense.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and related notes. Actual results could differ from those estimates.

NEW YORK STATE LOTTERY
Notes to Financial Statements
Years Ended March 31, 2019 and 2018

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Adoption of New Accounting Pronouncements

During the year ended March 31, 2019, the Lottery adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). GASB 75 replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for other postemployment benefits (OPEB). The scope of GASB 75 addresses accounting and financial reporting for OPEB plans that are provided to the employees of state and local governmental employers. GASB 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB plans, GASB 75 identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Footnote disclosure and required supplementary information requirements about defined benefit OPEB plans also are addressed. On April 1, 2018, the Lottery adopted GASB No. 75 for its March 31, 2019 financial statements. The effect of adopting GASB No. 75 is described below.

The Lottery is reporting the cumulative effect of adopting GASB 75, which includes the restatement of beginning OPEB liability of \$67.4 million. The net effect of the adjustments to beginning total net position was \$67.4 million. Because restatement of the prior year financial statement amounts was not practical, the cumulative effect of applying GASB 75 is being reported as a restatement of beginning net position at April 1, 2018. The table that follows presents the net impact of the cumulative effect of adopting GASB 75 on total net position (in thousands).

Total net position, beginning of period, April 1, 2018	\$ 350,589
Cumulative effect of adopting GASB 75	<u>(67,396)</u>
Total net position, beginning of period, April 1, 2018 (restated)	<u>\$ 283,193</u>

During the year ended March 31, 2019, the Lottery adopted GASB Statement No. 85, *Omnibus 2017* (GASB 85). The objective of this Statement is to address practice issues that were identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB). There was no material impact to the financial statements as a result of adopting and implementing GASB 85.

NEW YORK STATE LOTTERY
Notes to Financial Statements
Years Ended March 31, 2019 and 2018

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Recently Issued Accounting Pronouncements

During 2017, the GASB issued Statement No. 87, *Leases* (GASB 87). The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and inflows of resources or outflows of resources recognized based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. GASB 87 is effective for the Lottery's March 31, 2021 financial statements. The Lottery is evaluating the impact of this Statement on the financial statements and it is anticipated that there will be no material impact to the financial results from adopting and implementing GASB 87.

NOTE 2 CASH AND CASH EQUIVALENTS

Lottery deposits of cash and cash equivalents are made in accordance with New York State Finance Law Sections 92c and 98a and New York State Tax Law Sections 1611 and 1612. Lottery sales receipts are allocated and deposited in separate 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. Per Section 98a of the New York State Finance Law, the accounts for prizes and administration earn interest through participation in a STIP administered by the Office of the State Comptroller of the State of New York. The prize account interest is used for future lottery prizes. The STIP is reported at amortized cost, which approximates fair value. The valuation of the STIP is derived from unobservable inputs (Level 3), which primarily include New York State data and market participant assumptions particular to New York State. The carrying amount of the joint custody accounts included in cash and cash equivalents were \$988,283,000 and \$685,537,000 at March 31, 2019 and 2018, respectively.

The Lottery also maintains sole custody accounts that are used for daily cash management purposes. Interest-bearing cash accounts are Level 1 financial instruments and are based on quoted prices for identical assets. The Lottery manages the investment of its cash balances to minimize its uninvested funds. At March 31, 2019 and 2018, the amount of sole custody accounts included in cash and cash equivalents was \$27,681,000 and \$33,935,000, respectively.

NEW YORK STATE LOTTERY
Notes to Financial Statements
Years Ended March 31, 2019 and 2018

NOTE 2 CASH AND CASH EQUIVALENTS *(continued)*

The Lottery's deposits are collateralized under a program administered by the Office of the State Comptroller of the State of New York. To manage custodial credit risk, 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. The Lottery manages custodial credit risk by using several financial institutions and by minimizing balances in the sole custody accounts.

NOTE 3 INVESTMENTS

The Lottery is authorized by the Office of the State Comptroller per State statute to invest prize funds which will provide for the payment of prizes payable (see Note 4). The Lottery invests in U.S. Treasury bonds, U.S. Treasury strips, bonds guaranteed by U.S. Agency for International Development and New York City Transitional Finance Authority municipal bonds, which are guaranteed by the full faith and credit of the United States. The fair value of these investments at March 31, 2019 and 2018 was \$1,312,051,000 and \$1,334,200,000, respectively. During fiscal years 2019 and 2018, approximately \$30,444,000 and \$31,916,000, respectively, of amortized discount was included in investment income.

The amortized costs of these investments consisted of the following at March 31 (in thousands):

	<u>2019</u>	<u>2018</u>
Maturity value	\$ 1,470,022	\$ 1,508,666
Unamortized discount	<u>(284,858)</u>	<u>(293,865)</u>
Total at amortized cost	1,185,164	1,214,801
Less: Investments, maturing within one year, at amortized cost	<u>107,493</u>	<u>100,782</u>
Long-term investments, at amortized cost	<u><u>\$ 1,077,671</u></u>	<u><u>\$ 1,114,019</u></u>

Fair Value Measurement

The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels. Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for an asset or liability. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

NEW YORK STATE LOTTERY
Notes to Financial Statements
Years Ended March 31, 2019 and 2018

NOTE 3 INVESTMENTS *(continued)*

Fair Value Measurement *(continued)*

Fair value of the Lottery's investments are measured by Level 1 inputs based upon quoted prices in active markets or Level 2 inputs based upon quoted prices for identical or similar assets in markets that are not active or other observable inputs such as interest rates and yield curves observable at commonly quoted intervals. There are no Level 3 investments at March 31, 2019 and 2018.

The fair values of the U.S. Government obligations were valued using quoted market prices (Level 1). Bonds guaranteed by the U.S. Agency for International Development and New York City Transitional Finance Authority Bonds are valued at the closing price reported on the markets not actively traded (Level 2).

Balances and fair value measurements of the Lottery's investments at March 31 were as follows (in thousands):

<u>Investments</u>	<u>2019</u>		<u>2018</u>	
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 1</u>	<u>Level 2</u>
U.S. Treasury Strips	\$ 5,571	\$ -	\$ 4,771	\$ -
U.S. Treasury Bonds	600,180	-	581,628	-
New York City Transitional Finance Authority Bonds	-	457,371	-	474,919
Bonds guaranteed by U.S. Agency for International Development	-	248,929	-	272,882
Total investments	<u>\$ 605,751</u>	<u>\$ 706,300</u>	<u>\$ 586,399</u>	<u>\$ 747,801</u>

Maturities of the investments in each of the five fiscal years following March 31, 2019, and five-year incremental totals thereafter, are as follows (in thousands):

	<u>Maturities</u>	<u>Interest due</u>	<u>Total</u>
2020	\$ 109,476	\$ 21,738	\$ 131,214
2021	109,034	20,901	129,935
2022	108,934	19,974	128,908
2023	94,382	19,001	113,383
2024	90,572	18,091	108,663
2025–2029	334,366	75,659	410,025
2030–2034	170,606	62,692	233,298
2035–2039	223,008	45,922	268,930
2040–2044	209,770	2,664	212,434
2045–2048	19,874	-	19,874
	<u>\$ 1,470,022</u>	<u>\$ 286,642</u>	<u>\$ 1,756,664</u>

NEW YORK STATE LOTTERY
Notes to Financial Statements
Years Ended March 31, 2019 and 2018

NOTE 3 INVESTMENTS *(continued)*

Fair Value Measurement *(continued)*

Credit risk is the risk that an issuer will not fulfill its obligations. The Lottery's policy is to follow New York State law which limits the investments that the Lottery can make and generally limits the Lottery's exposure to credit risk. The Lottery has generally limited its investments to obligations backed by the full faith of the U.S. Government. Beginning in 2011, the Lottery held similarly rated New York City Transitional Finance Authority municipal bonds. The credit ratings of the Lottery's investments as published by Moody's and Standard & Poor's are included below for those investments where credit ratings were available.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Lottery's policy for managing this risk is generally to hold investment securities to maturity, at which time the fair value of the investment is equal to its stated maturity value.

As of March 31, 2019 and 2018, the Lottery had the following investments and maturities (amounts in thousands):

Investment Type	2019 Fair Value	Moody's Credit Rating	S&P Credit Rating	2019 Investment Maturities (Fair Value)		
				Less than Five Years	5 Years to 10 Years	More than 10 Years
U.S. Treasury Strips	\$ 5,571	N/A	N/A	\$ -	\$ 5,571	\$ -
U.S. Treasury Bonds	600,180	N/A	N/A	204,324	152,659	243,197
New York City Transitional Finance Authority Bonds	457,371	Aa1	AAA	78,647	86,607	292,117
Bonds guaranteed by U.S. Agency for International Development	248,929	N/A	N/A	188,714	60,215	-
Total	<u>\$ 1,312,051</u>			<u>\$ 471,685</u>	<u>\$ 305,052</u>	<u>\$ 535,314</u>
Investment Type	2018 Fair Value	Moody's Credit Rating	S&P Credit Rating	2018 Investment Maturities (Fair Value)		
				Less than Five Years	5 Years to 10 Years	More than 10 Years
U.S. Treasury Strips	\$ 4,771	N/A	N/A	\$ -	\$ 4,771	\$ -
U.S. Treasury Bonds	581,628	N/A	N/A	218,910	136,766	225,952
New York City Transitional Finance Authority Bonds	474,919	Aa1	AAA	75,177	106,596	293,146
Bonds guaranteed by U.S. Agency for International Development	272,882	N/A	N/A	181,579	91,303	-
Total	<u>\$ 1,334,200</u>			<u>\$ 475,666</u>	<u>\$ 339,436</u>	<u>\$ 519,098</u>

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to perform on a transaction, the Lottery will not be able to recover the value of investment securities that are in the possession of an outside party. To manage this risk, all of the Lottery's investments are insured or registered securities held by the Lottery or its agent in the Lottery's name.

NEW YORK STATE LOTTERY
Notes to Financial Statements
Years Ended March 31, 2019 and 2018

NOTE 4 PRIZES PAYABLE

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

	<u>2019</u>	<u>2018</u>
Total obligation	\$ 1,810,700	\$ 1,862,314
Unamortized discount	<u>(569,375)</u>	<u>(579,675)</u>
Total carrying amount	1,241,325	1,282,639
Less: Prizes payable within one year	<u>135,733</u>	<u>131,535</u>
Long-term prizes payable	<u><u>\$ 1,105,592</u></u>	<u><u>\$ 1,151,104</u></u>

The amortized discount on the prizes payable is based on interest rates ranging from 0.29% to 7.77% for fiscal years 2019 and 2018, and reflects the interest rates earned by the investments held to fund the related liabilities. The amortization of discount is recorded as an investment expense in the accompanying statements of revenue, expenses, and changes in net position and amounted to \$52,754,000 and \$54,867,000 for fiscal years 2019 and 2018, respectively.

The aggregate amount of prizes payable due in each of the five fiscal years following March 31, 2019, and the five year incremental totals thereafter, is as follows (in thousands):

<u>Year</u>	<u>Amount</u>
2020	\$ 130,859
2021	129,820
2022	128,017
2023	117,914
2024	109,144
2025–2029	419,560
2030–2034	245,539
2035–2039	153,264
2040–2044	122,950
2045–2049	95,050
2050–2054	68,225
2055–2059	44,754
Thereafter	<u>45,604</u>
	<u><u>\$ 1,810,700</u></u>

NEW YORK STATE LOTTERY
Notes to Financial Statements
Years Ended March 31, 2019 and 2018

NOTE 5 LONG-TERM LIABILITIES

The Lottery's long-term liabilities as of March 31, 2019 and 2018 are comprised of the following (in thousands):

	<u>Balance at March 31, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at March 31, 2019</u>	<u>Current Portion</u>
Compensated absences (Note 11)	\$ 1,204	\$ 1,127	\$ (1,008)	\$ 1,323	\$ 1,101
Pension contribution payable (Note 7)	2,909	36	(1,100)	1,845	383
Net pension liability (Note 7)	4,839	-	(3,120)	1,719	-
Other postemployment benefits (Note 10)	-	66,030	-	66,030	-
Prizes payable (Note 4)	1,282,639	85,754	(127,068)	1,241,325	135,733
Total	<u>\$ 1,291,591</u>	<u>\$ 152,947</u>	<u>\$ (132,296)</u>	<u>\$ 1,312,242</u>	<u>\$ 137,217</u>
	<u>Balance at March 31, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at March 31, 2018</u>	<u>Current Portion</u>
Compensated absences (Note 11)	\$ 1,344	\$ 1,006	\$ (1,146)	\$ 1,204	\$ 1,002
Pension contribution payable (Note 7)	2,152	757	-	2,909	347
Net pension liability (Note 7)	8,324	-	(3,485)	4,839	-
Prizes payable (Note 4)	1,333,664	74,416	(125,441)	1,282,639	131,535
Total	<u>\$ 1,345,484</u>	<u>\$ 76,179</u>	<u>\$ (130,072)</u>	<u>\$ 1,291,591</u>	<u>\$ 132,884</u>

NOTE 6 AID TO EDUCATION

The required allocation and contribution transferred out for aid to Education during the fiscal years ended March 31, 2019 and 2018 are as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Cash transferred to Education	\$ 3,200,794	\$ 3,361,341
Prior-year payable	(303,497)	(292,970)
Current-year payable	<u>576,744</u>	<u>303,497</u>
Required allocation to Education	<u>\$ 3,474,041</u>	<u>\$ 3,371,868</u>

NOTE 7 PENSION BENEFITS

Substantially all employees of the Lottery are members of the State and Local Employees' Retirement System (ERS). The program is part of the State and Local Retirement System (System) which is a cost-sharing, multiple employer public employee retirement system. The Comptroller of the State of New York is sole trustee and administrative head of the System.

NEW YORK STATE LOTTERY
Notes to Financial Statements
Years Ended March 31, 2019 and 2018

NOTE 7 **PENSION BENEFITS** *(continued)*

For purposes of determining net pension liability and other pension-related amounts, information about the fiduciary net position of ERS and additions to and deductions from the ERS fiduciary net position has been determined on the same basis reported by the System. The System issues a publicly available financial report that includes financial statements, expanded disclosures, and required supplementary information for the System. The report may be obtained by writing to the New York State and Local Retirement System, Office of the State Comptroller, 110 State Street, Albany, New York, 12244-0001, or at www.osc.state.ny.us/pension/cafr.htm.

The System provides retirement benefits as well as death and disability benefits. Retirement benefits are established by the New York State Retirement and Social Security Law. Vesting, 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 on or after July 27, 1976 are required by law to contribute some percent of their gross salary for a specified number of years of employment; the Lottery withholds and contributes the balance payable to the System for these employees.

The Lottery paid to the Office of the State Comptroller of the State of New York \$3,328,000 for 2019 and \$3,414,000 for 2018, to cover required employer contributions for retirement benefits, which equaled 100% of the required contribution in each of the respective years. These payments represented 17.86% and 19.46% of covered payroll for each of the years, respectively.

Net Pension Liabilities and Other Pension-Related Amounts

The Lottery recognized a net pension liability of \$1,719,071 and \$4,839,379 at March 31, 2019 and 2018, respectively, for its proportionate share of the ERS net pension liability.

The State's proportionate share of the collective net pension liability reported at March 31, 2019, was measured as of March 31, 2018, and was determined using an actuarial valuation as of April 1, 2017, with update procedures used to roll forward the total pension liability to March 31, 2018. The State's proportion of the ERS net pension liability measured at March 31, 2018, was 42.7% for ERS, which was comparable with the proportions allocated to the State at March 31, 2017 of 43.2%. The State's proportion related to the plan was determined consistently with the manner in which contributions to the pension plan are determined. The State's total projected long-term contribution effort to ERS was compared to the total projected long-term contribution effort from all employers to ERS in order to determine the State's proportion of the plan's net pension liability.

NEW YORK STATE LOTTERY
Notes to Financial Statements
Years Ended March 31, 2019 and 2018

NOTE 7 PENSION BENEFITS *(continued)*

Net Pension Liabilities and Other Pension-Related Amounts *(continued)*

The Office of the State Comptroller provided the Lottery with its proportionate share of the ERS collective liability. The Statewide proportionate share of the ERS collective net pension liability measured at March 31, 2018 and 2017 allocated to the Lottery enterprise fund was 0.12%, respectively.

Actuarial Assumptions

The total pension liability for the March 31, 2018 measurement date was determined by using an actuarial valuation as of April 1, 2017, with update procedures used to roll forward the total pension liability to March 31, 2018. The total pension liability for the March 31, 2017 measurement date was determined by using an actuarial valuation as of April 1, 2016, with update procedures used to roll forward the total pension liability to March 31, 2017. The actuarial valuation for ERS used the following actuarial assumptions for the valuations as of April 1, 2017 and 2016:

Actuarial cost method	Entry age normal
Inflation	2.5%
Salary scale	3.8%
Investment rate of return, including inflation	7.0% compounded annually, net of investment expenses
Cost-of-living adjustments	1.3% annually
Decrements	Developed from the Plan's 2015 experience study for period April 1, 2010 through March 31, 2015
Mortality improvement	Society of Actuaries Scale MP-2014

NEW YORK STATE LOTTERY
Notes to Financial Statements
Years Ended March 31, 2019 and 2018

NOTE 7 PENSION BENEFITS *(continued)*

Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined in accordance with Actuarial Standard of Practice (ASOP) No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*. ASOP No. 27 provides guidance on the selection of an appropriate assumed investment rate of return. Consideration was given to expected future real rates of return (expected returns, net of pension plan investment expense and inflation) for equities and fixed income as well as historical investment data and plan performance. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized below:

Valuation as of April 1, 2017		
Asset Class	Target Allocation	Long-term Expected Rate of Return
Domestic equity	36%	4.55%
International equity	14	6.35
Private equity	10	7.50
Real estate	10	5.55
Absolute return strategies	2	3.75
Opportunistic portfolio	3	5.68
Real estate	3	5.29
Bonds and mortgages	17	1.31
Cash	1	(0.25)
Inflation-indexed bonds	4	1.25
Total	100%	

Valuation as of April 1, 2016		
Asset Class	Target Allocation	Long-term Expected Rate of Return
Domestic equity	36%	4.55%
International equity	14	6.35
Private equity	10	7.75
Real estate	10	5.80
Absolute return strategies	2	4.00
Opportunistic portfolio	3	5.89
Real estate	3	5.54
Bonds and mortgages	17	1.31
Cash	1	(0.25)
Inflation-indexed bonds	4	1.50
Total	100%	

NEW YORK STATE LOTTERY
Notes to Financial Statements
Years Ended March 31, 2019 and 2018

NOTE 7 PENSION BENEFITS *(continued)*

Discount Rate

The discount rate used to calculate the ERS total pension liability at March 31, 2019 and 2018 was 7.0%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the Lottery's current period net pension liability using the current period discount rate assumption, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current assumption (in thousands):

<u>Lottery Net Pension Liability for Year Ended</u>	<u>1% Decrease (6%)</u>	<u>Current Assumption (7%)</u>	<u>1% Increase (8%)</u>
March 31, 2019	\$ 13,007	\$ 1,719	\$ (7,830)
March 31, 2018	\$ 15,456	\$ 4,839	\$ (4,137)

NEW YORK STATE LOTTERY
Notes to Financial Statements
Years Ended March 31, 2019 and 2018

NOTE 7 PENSION BENEFITS *(continued)*

Discount Rate *(continued)*

For the years ended March 31, 2019 and 2018, the Lottery recognized a net pension liability of \$1,719,071 and \$4,839,379, respectively, for its proportionate share of the ERS net pension liability. For the years ended March 31, 2019 and 2018, the Lottery recognized pension expense of \$2,065,109 and \$2,776,951, respectively, related to ERS. Deferred outflows of resources and deferred inflows of resources related to ERS are summarized from the following sources (in thousands):

<u>Deferred Outflows of Resources</u>	<u>2019</u>	<u>2018</u>
Difference expected and actual experience	\$ 613	\$ 121
Changes in assumptions	1,140	1,653
Net difference between projected and actual investment earnings on pension plan investments	-	968
Changes in proportion and differences between employer contributions and proportionate share of contributions	43	64
Contributions made subsequent to measurement date	1,998	1,951
Total Deferred Outflows of Resources	\$ 3,794	\$ 4,757
<u>Deferred Inflows of Resources</u>	<u>2019</u>	<u>2018</u>
Difference expected and actual experience	\$ 507	\$ 735
Net difference between projected and actual investment earnings on pension plan investments	2,431	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	124	63
Total Deferred Inflows of Resources	\$ 3,062	\$ 798

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions for Lottery will be recognized in pension expense as follows:

<u>Year</u>	<u>Amount</u>
2020	\$ 354,842
2021	249,423
2022	(1,273,173)
2023	(597,541)
2024	-

The amount of deferred outflows of resources at March 31, 2019 and 2018 that will be applied as a reduction of the pension liability was \$1,998,000 and \$1,951,000, respectively.

NEW YORK STATE LOTTERY
Notes to Financial Statements
Years Ended March 31, 2019 and 2018

NOTE 8 OPERATING INCOME

Composition of operating income for fiscal 2019 and 2018 by type of lottery game is as follows (in thousands):

	2019					
	Expenses					Net
Revenue	Prizes**	Commissions	Fees	Instant Direct Expense		
Mega Millions	\$ 480,144	\$ (232,726)	\$ (28,446)	\$ (5,127)	\$ -	\$ 213,845
Lotto	69,311	(24,643)	(3,810)	(814)	-	40,044
Take 5	242,251	(120,535)	(14,535)	(2,164)	-	105,017
Pick 10	30,553	(13,501)	(1,833)	(273)	-	14,946
Numbers	911,900	(470,230)	(54,714)	(8,146)	-	378,810
Win 4	955,450	(463,999)	(57,327)	(8,535)	-	425,589
Powerball	389,777	(176,520)	(23,417)	(4,109)	-	185,731
Other Multi-State Draw Games***	87,911	(36,914)	(5,105)	(881)	-	45,011
Instants	4,226,735	(2,842,847)	(253,602)	(40,645)	(23,313)	1,066,328
Quick Draw	814,078	(538,705)	(48,845)	(7,617)	-	218,911
Total traditional lottery	8,208,110	(4,920,620)	(491,634)	(78,311)	(23,313)	2,694,232
Video gaming	2,082,440 *	1,000	(963,959)	(156,495)	-	962,986
	<u>\$ 10,290,550</u>	<u>\$ (4,919,620)</u>	<u>\$ (1,455,593)</u>	<u>\$ (234,806)</u>	<u>\$ (23,313)</u>	3,657,218
Telecommunications						(17,876)
Indirect expenses						(135,036)
Total operating income						<u>\$ 3,504,306</u>

* Video gaming revenue represents net machine income after awarding prizes. Video gaming credits played and won were as follows:

Credits played	\$ 39,670,034
Credits won	(37,587,594)
Net machine income	<u>\$ 2,082,440</u>

** Prizes unclaimed after one year are forfeited and are netted against prizes.

*** Other Multi-State Draw Games include Cash 4 Life.

	2018					
	Expenses					Net
Revenue	Prizes**	Commissions	Fees	Instant Direct Expense		
Mega Millions	\$ 311,750	\$ (158,775)	\$ (18,387)	\$ (3,173)	\$ -	\$ 131,415
Lotto	71,409	(33,179)	(3,902)	(850)	-	33,478
Take 5	238,054	(120,398)	(14,283)	(2,081)	-	101,292
Pick 10	29,557	(15,122)	(1,773)	(258)	-	12,404
Numbers	887,310	(447,163)	(53,239)	(7,755)	-	379,153
Win 4	927,022	(422,740)	(55,621)	(8,102)	-	440,559
Powerball	408,065	(194,430)	(24,484)	(3,810)	-	185,341
Other Multi-State Draw Games***	94,011	(47,750)	(5,482)	(917)	-	39,862
Instants	4,178,499	(2,857,208)	(250,708)	(38,378)	(26,079)	1,006,126
Quick Draw	793,152	(519,568)	(47,589)	(7,957)	-	218,038
Total traditional lottery	7,938,829	(4,816,333)	(475,468)	(73,281)	(26,079)	2,547,668
Video gaming	2,034,690 *	430	(912,852)	(155,703)	-	966,565
	<u>\$ 9,973,519</u>	<u>\$ (4,815,903)</u>	<u>\$ (1,388,320)</u>	<u>\$ (228,984)</u>	<u>\$ (26,079)</u>	3,514,233
Telecommunications						(18,612)
Indirect expenses						(127,314)
Total operating income						<u>\$ 3,368,307</u>

* Video gaming revenue represents net machine income after awarding prizes. Video gaming credits played and won were as follows:

Credits played	\$ 38,325,229
Credits won	(36,290,539)
Net machine income	<u>\$ 2,034,690</u>

** Prizes unclaimed after one year are forfeited and are netted against prizes.

*** Other Multi-State Draw Games include Cash 4 Life.

NOTE 9 DEFERRED COMPENSATION

The 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.

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS

General Information about the OPEB Plan

As a New York State (State) agency, the Lottery participates in the New York State Health Insurance Program (NYSHIP), which is administered by the State as a single-employer, defined benefit plan. The State has the authority to establish and amend benefit terms, as well as pay OPEB benefits as they come due. Under the plan, the State provides certain healthcare benefits for eligible retired employees and their dependents. In order to qualify, retirees must meet certain age requirements and minimum service periods that vary based on the time they last entered benefits-eligible service. Retirees generally contribute a percent of the cost of single and dependent coverage for health insurance benefits. The percent varies based on when the employee retired. The percent also varies based on salary grade for those retiring on or after January 1, 2012. The State covers 100% of the cost of single coverage for employees retired prior to January 1, 1983 who are enrolled in the Empire Plan or another plan of equal or lower cost. NYSHIP does not issue a stand-alone financial report and NYSHIP's agent activities are included within the financial statements of the State.

During the fiscal years ended March 31, 2019 and 2018, NYSHIP provided health insurance coverage through the Empire Plan, an indemnity health insurance plan with managed care components; various Health Maintenance Organizations (HMOs); and through the Student Employee Health Plan (SEHP). Generally, these include hospital, medical, mental health, substance abuse benefits, and prescription drug benefits.

The Lottery's policy regarding retiree healthcare benefits is to pay the amounts billed through the State's fringe benefit rate on a pay-as-you-go basis. The Lottery has no obligation beyond the payment of the State's fringe benefit rate for retiree healthcare benefits.

NEW YORK STATE LOTTERY
Notes to Financial Statements
Years Ended March 31, 2019 and 2018

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS *(continued)*

General Information about the OPEB Plan *(continued)*

There were 407 total Lottery employees and participants covered by the benefit terms, as follows: 234 active employees, 1 inactive participant entitled to but not yet receiving benefits and 172 retirees and surviving spouses receiving benefit payments. There were annual pay-as-you-go disbursements of \$2,141,700 and \$2,033,778 for 2019 and 2018, respectively. Employee contributions were \$460,992 and \$440,684 for the years ended March 31, 2019 and 2018, respectively. Retiree healthcare benefit costs are included in personnel service and fringe benefits expenses in the accompanying statements of revenue, expenses, and change in net position.

Actuarial Methods and Assumptions

At March 31, 2019, the Lottery reported a liability of \$66,030,010 for its proportionate share of the net OPEB liability included in the accompanying statements of net position. The net OPEB liability at March 31, 2019 was measured as of March 31, 2018 and was determined by an actuarial valuation as of April 1, 2017, with update procedures used to roll-forward the net OPEB liability to March 31, 2018.

The State's proportion related to the plan was determined consistently with the manner in which OPEB actual expenses are paid. The Office of the State Comptroller provided the Lottery with its proportionate share of the OPEB liability. The Statewide proportionate share of the OPEB liability measured at March 31, 2019 and 2018 allocated to the Lottery enterprise fund was 0.127% and 0.129%, respectively.

The actuarial valuation included the following actuarial assumptions:

Actuarial cost method	Entry age normal
Inflation	2.5%
Discount rate	3.89%
Mortality improvement	Society of Actuaries' Scale MP-2014

The discount rate is based on the Bond Buyer 20-year general obligation municipal bond index rate at March 30, 2018.

The salary rate varies by years of service, starting at 8 percent and decreasing to 3 percent after 18 years of service.

Health care cost trend rates were split to reflect separate trends for pre-65 and post-65 claims. The pre-65 trend assumption begins at 6.25% and decreases to 4.50% long-term trend rate for all health care benefits after eight years. The trend assumption for post-65 begins at 5.20% and decreases to 4.50% long-term trend rate for all health care benefits after eight years. The drug assumption begins at 9.50% and decreases to 4.50% long-term trend rate after eight years.

NEW YORK STATE LOTTERY
Notes to Financial Statements
Years Ended March 31, 2019 and 2018

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS *(continued)*

Actuarial Methods and Assumptions *(continued)*

Additionally, a trend starting at 9.50% per year and decreasing to 4.5% after eight years has been assumed for the employer group waiver plan benefits.

There were no significant changes in actuarial assumptions or other inputs, as of the March 31, 2018 measurement date described above, which affected the measurement of the collective total OPEB liability since the prior measurement date as of March 31, 2017.

In accordance with GASBS No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the actuarial valuation of OPEB also includes the value of sick leave that will be converted to reduce the retiree's share of health insurance premiums.

Annual OPEB Cost and Net OPEB Obligation

The following table shows the changes in the Lottery's net OPEB liability as of the measurement date (in thousands):

Service cost	\$ 2,184
Interest	2,725
Differences between expected and actual experience	(5,980)
Change in assumptions	(294)
Benefit payments	<u>(2,034)</u>
Net changes	(3,399)
Total OPEB liability, beginning of fiscal year	<u>69,429</u>
Total OPEB liability, end of fiscal year	<u>\$ 66,030</u>

There were no significant changes between the March 31, 2018 measurement date and March 31, 2019 that will have a significant effect on the total OPEB liability at March 31, 2019.

There are no assets accumulated in a qualified Trust related to the OPEB Plan.

Sensitivity of net OPEB liability to change in discount rate. The following presents the net OPEB liability of the Lottery at March 31, 2019, as well as what the Lottery's net OPEB liability would be if it were calculated using a discount rate that is 1 percent lower and 1 percent higher than the current year rate (in thousands):

<u>Total OPEB Liability</u>	<u>1% Decrease (2.89%)</u>	<u>Current Assumption (3.89%)</u>	<u>1% Increase (4.89%)</u>
March 31, 2019	\$ 78,462	\$ 66,030	\$ 56,318

NEW YORK STATE LOTTERY
Notes to Financial Statements
Years Ended March 31, 2019 and 2018

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS *(continued)*

Annual OPEB Cost and Net OPEB Obligation *(continued)*

Sensitivity of net OPEB liability to change in health care cost trend rates. The following presents the net OPEB liability of the Lottery at March 31, 2019, as well as what the Lottery's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower and 1% higher than the current year rate (in thousands):

<u>Total OPEB Liability</u>	<u>1% Decrease</u>	<u>Current Assumption</u>	<u>1% Increase</u>
March 31, 2019	\$ 55,202	\$ 66,030	\$ 80,245

In 2019, the Lottery recognized expense related to OPEB of \$3,786,370, which is included in personnel service and fringe benefits expenses in the accompanying statements of revenue, expenses, and change in net position. At March 31, 2019, the Lottery reported deferred outflows and deferred inflows of resources related to OPEB from the following sources (in thousands):

<u>Deferred Outflows of Resources</u>	<u>2019</u>
Employer contributions subsequent to measurement date	\$ 2,142
Total deferred outflows of resources	<u>\$ 2,142</u>
<u>Deferred Inflows of Resources</u>	<u>2019</u>
Difference expected and actual experience	\$ 4,910
Changes in assumptions	242
Total deferred inflows of resources	<u>\$ 5,152</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB for Lottery will be recognized in OPEB expense as follows (in thousands):

<u>Year</u>	<u>Amount</u>
2020	\$ 1,122
2021	1,122
2022	1,122
2023	1,122
2024	664

NEW YORK STATE LOTTERY
Notes to Financial Statements
Years Ended March 31, 2019 and 2018

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS *(continued)*

Annual OPEB Cost and Net OPEB Obligation *(continued)*

The amount of deferred outflows of resources at March 31, 2019 that will be applied as a reduction of the OPEB liability is \$2,142,000.

NOTE 11 EMPLOYEES' COMPENSATED ABSENCES

Under the terms of the Lottery's personnel policies and its union agreements, vacation pay benefits may be paid upon termination, up to a maximum of 225 hours. The Lottery recognizes employees' compensated absence benefits when earned. The liability for employees' compensated absences was approximately \$1,323,000 and \$1,204,000 as of March 31, 2019 and 2018, respectively, and is recorded as compensated absences in the accompanying statements of net position.

NOTE 12 LEASES

The Lottery has entered into operating leases for equipment and building space. Rental expense was approximately \$2,573,000 and \$2,506,000 in 2019 and 2018, respectively.

Future minimum lease payments under all noncancelable leases having initial or remaining terms in excess of one year as of March 31, 2019 are as follows (in thousands):

<u>Year</u>	<u>Operating Leases</u>
2020	\$ 2,416
2021	1,857
2022	1,234
2023	1,239
2024	921
2025 and thereafter	4,416
Total minimum payments required	<u><u>\$ 12,083</u></u>

NOTE 13 COMMITMENTS AND CONTINGENCIES

Contractual Arrangements

The Lottery maintains a gaming network of approximately 17,500 retailer locations where all traditional lottery games are sold. Instant Game tickets are also sold through approximately 4,500 self-service terminals. International Game Technology (IGT; formerly GTECH Corporation) is responsible for operating all traditional Lottery games, including maintenance of terminals and related communication services, under a contract expiring on August 1, 2020.

Instant Game sales are also supported by services provided under additional contracts:

- (1) Under a contract amendment that expires August 5, 2020, Scientific Games International is the primary supplier of Instant Game tickets.
- (2) Under a contract amendment expiring August 5, 2020, Pollard Banknote Limited is an alternate supplier of Instant Game tickets.
- (3) Under a contract amendment that expires on August 5, 2020, IGT Global Solutions Corporation (formerly GTECH Printing Corporation) is an alternate supplier of Instant Game tickets.

Video lottery games are offered on approximately 18,400 video gaming machines spread over 10 video lottery gaming facilities. Everi Games, Inc. (formerly MGAM Systems, Inc.) provides a central processing system for the operation of video lottery games under a contract expiring on December 31, 2019. Video lottery gaming machines are provided under contracts expiring December 31, 2019 with two different companies: Bally Gaming Inc. and International Game Technology (formerly GTECH and Spielo International USA, Inc.). These contracts are paid based on a contractual percentage of revenue, adjusted for units of service provided.

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.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

NEW YORK STATE LOTTERY

Required Supplementary Information (Unaudited)
 Years Ended March 31, 2019 and 2018

The schedules that follow are required supplementary information and are presented as of and for the Lottery's fiscal year ended March 31 using a measurement date of the preceding March 31:

**Schedule of Lottery's Proportionate Share of Net Pension Liability
 for New York State and Local Employees' Retirement System**

As of and for the Years Ended March 31
 (Dollars in thousands)

Fiscal Year End	Lottery's Proportionate (Percentage) Share of Collective Net Pension Liability	Lottery's Proportionate (Amount) Share of Collective Net Pension Liability	Lottery's Covered Employee Payroll	Lottery's Proportionate Share of Collective Net Pension Liability as a Percentage of Covered Employee Payroll	Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability
2019	0.12%	\$1,719	\$18,633	9.23%	98.24%
2018	0.12%	\$4,839	\$17,546	27.58%	94.70%
2017	0.12%	\$8,324	\$17,583	47.34%	90.69%
2016	0.13%	\$1,883	\$17,460	10.78%	97.95%

The "Schedule of Lottery's Proportionate Share of Net Pension Liability" presented above is to illustrate the required 10-year trend of information. However, until we can compile a full 10-year trend of information, we are presenting the information for which information was available.

NEW YORK STATE LOTTERY

Required Supplementary Information (Unaudited) *(continued)*
Years Ended March 31, 2019 and 2018

**Schedule of Lottery's Contributions for New York State and
Local Employees' Retirement System**

As of and for the Years Ended March 31
(Dollars in thousands)

Fiscal Year End	Required Contributions	Lottery's Contributions Recognized by the Pension Plan	Contribution Excess/ (Deficiency)	Lottery's Covered Employee Payroll	Lottery's Contributions as a Percentage of Covered Employee Payroll
2019	\$3,328	\$3,328	-	\$18,058	17.86%
2018	\$3,414	\$3,414	-	\$18,633	19.46%
2017	\$2,896	\$2,896	-	\$17,546	16.47%
2016	\$2,921	\$2,921	-	\$17,583	16.73%

The "Schedule of Lottery's Contributions" presented above is to illustrate the required 10-year trend of information. However, until we can compile a full 10-year trend of information, we are presenting the information for which information was available.

NEW YORK STATE LOTTERY

Required Supplementary Information (Unaudited) (continued)
Years Ended March 31, 2019 and 2018

The schedule that follows is required supplementary information and is presented as of and for the Lottery's fiscal year ended March 31 using a measurement date of the preceding March 31:

Schedule of Changes in Net OPEB Liability and Related Ratios

As of and for the Year Ended March 31, 2019

(Dollars in thousands)

<i>Total OPEB liability</i>	
Service cost	\$ 2,184
Interest	2,725
Differences between actual and expected experience	(5,980)
Changes of assumptions or other inputs	(294)
Benefit payments	<u>(2,034)</u>
Net change in total OPEB liability	(3,399)
Total OPEB liability, beginning	<u>69,429</u>
Total OPEB liability, ending	<u>\$ 66,030</u>
Net position as a percentage of OPEB liability	N/A
Covered employee payroll	\$ 11,426
Net OPEB liability as a percentage of covered employee payroll	<u>577.9%</u>

Changes in benefit terms: There were no significant legislative changes in benefits for March 31, 2019.

The "Schedule of Changes in Net OPEB Liability and Related Ratios" presented above is to illustrate the required 10-year trend of information. However, until we can compile a full 10-year trend of information, we are presenting the information for which information was available.

