

**NEW YORK STATE LOTTERY**

**Financial Statements and Supplementary Information  
Years Ended March 31, 2021 and 2020  
With Independent Auditor's Report**



**MITCHELL TITUS**  
ACHIEVING EXCELLENCE TOGETHER

**NEW YORK STATE LOTTERY**  
Financial Statements and Supplementary Information  
Years Ended March 31, 2021 and 2020

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## INDEPENDENT AUDITOR'S REPORT

Gaming Commissioners and Senior Management  
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, 2021 and 2020, the related statements of revenue, expenses, and changes 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, 2021 and 2020, 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 Matter***

As discussed in Note 1, the Lottery's financial statements are intended to present the financial position and the changes in financial position and cash flows of the Lottery and do not purport to, and do not, present fairly the financial position of the State of New York, as of March 31, 2021 and 2020, the changes 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.

### ***Other 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 39 through 41 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 audits 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 15, 2021

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The management of the New York State Lottery (the New York Lottery or the 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, 2021 and 2020. 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, 2021 and 2020 have been prepared in accordance with accounting principles generally accepted in the United States of America.

### FINANCIAL HIGHLIGHTS

- New York Lottery revenue totaled \$8.595 billion, while the required allocation for the Lottery Aid to Education was \$3.591 billion for fiscal year 2021.
- New York Lottery revenue, net in fiscal year 2021 was less than the net revenue of 2020 by \$1.146 billion, or 11.8%. In fiscal year 2020, the annual revenue decreased by \$550 million, or 5.3%.
- The required allocation for the Lottery Aid to Education in fiscal year 2021 was more than the required allocation of 2020 by \$213.9 million, or 6.3%. Comparatively, the required allocation for Aid to Education in fiscal year 2020 was less than the required allocation of 2019 by \$97.2 million, or 2.8%.
- Prize expense decreased by \$209.1 million, or 4.5%, during fiscal year 2021. Prize expense decreased by \$296 million, or 6%, during fiscal year 2020. Prize expense generally follows the changes occurring in sales of the corresponding games.
- Operating income decreased by \$295.6 million, or 8.9%, during fiscal year 2021. Operating income decreased by \$196.8 million, or 5.6%, during fiscal year 2020.
- Nonoperating income decreased by \$262.4 million during fiscal year 2021 after increasing by \$146.9 million during fiscal year 2020. Changes in this category are generally the result of unrealized gains/losses on investments, which can change by significant amounts in either direction from year to year.
- Working capital (current assets minus current liabilities) increased by \$140.9 million in fiscal year 2021 after decreasing by \$53.9 million in fiscal year 2020.

### 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 revenue when earned, not when received. Likewise, expenses are recognized when incurred, not when paid. The Lottery prepares the following financial statements:

## 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 2021 and 2020. 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 revenue and expenses and the change in net position for fiscal years 2021 and 2020.

**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 fiscal years 2021 and 2020. 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 Lottery Aid to Education from revenue, not including video gaming revenues.
- Prize Pending Account – Consists of Lottery prizes claimed but not yet paid from revenue, 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 Lottery 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 March 31, 2021, 2020 and 2019 (in millions):

	March 31,			2021 vs. 2020		2020 vs. 2019	
	2021	2020	2019	Dollar Change	Percent Change	Dollar Change	Percent Change
Current assets	\$ 1,383	\$ 1,215	\$ 1,643	\$ 168	13.8%	\$ (428)	(26.0)%
Long-term investments, net	1,151	1,310	1,203	(159)	(12.1)	107	8.9
Capital assets	-	-	-	-	-	-	-
<b>Total assets</b>	<b>2,534</b>	<b>2,525</b>	<b>2,846</b>	<b>9</b>	<b>0.4</b>	<b>(321)</b>	<b>(11.3)</b>
Total deferred outflows of resources	19	6	6	13	216.7	-	-
Current liabilities	977	950	1,324	27	2.8	(374)	(28.2)
Noncurrent liabilities	1,090	1,119	1,175	(29)	(2.6)	(56)	(4.8)
<b>Total liabilities</b>	<b>2,067</b>	<b>2,069</b>	<b>2,499</b>	<b>(2)</b>	<b>(0.1)</b>	<b>(430)</b>	<b>(17.2)</b>
Total deferred inflows of resources	5	7	8	(2)	(28.6)	(1)	(12.5)
Restricted net position	331	214	255	117	54.7	(41)	(16.1)
Unrestricted net position	150	241	90	(91)	(37.8)	151	167.8
<b>Total net position</b>	<b>\$ 481</b>	<b>\$ 455</b>	<b>\$ 345</b>	<b>\$ 26</b>	<b>5.7 %</b>	<b>\$ 110</b>	<b>31.9 %</b>

**Current Assets** – Current assets consist of cash and cash equivalents, accounts receivable, instant ticket inventory, and short-term investments. During fiscal year 2021, current assets increased by \$167.9 million, which represented an increase of 13.8% from the previous year. This increase was primarily a result of an increase in cash in administrative accounts and cash held for prizes pending. In fiscal year 2020, current assets decreased by \$427.8 million, which represented a decrease of 26.0% from the previous year.

**Long-Term Investments, Net** – During fiscal year 2021, long-term investments, net decreased by \$158.5 million, which represented a decrease of 12.1% from the previous year. This decrease was primarily a result of unfavorable market conditions. In fiscal year 2020, long-term investments, net increased by \$106.2 million, which represented an increase of 8.8% from the previous year. This increase was primarily a result of favorable market conditions.

**Capital Assets** – Capital assets consist of equipment and leasehold improvements. During fiscal year 2021, no capital assets were added and none were disposed. Additional information about the Lottery's capital assets can be found in Note 1 of the notes to the basic financial statements.

**Deferred Outflows of Resources** – Deferred outflows of resources relate to deferred pension costs determined in accordance with Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27* (GASB Statement No. 68) and deferred other postemployment benefits (OPEB) determined in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Deferred outflows of resources increased by \$12.9 million in fiscal year 2021, which was a 212.9% increase. In fiscal year 2020, deferred outflows of resources increased \$0.1 million, representing a 1.9% increase.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

### FINANCIAL ANALYSIS *(continued)*

**Current Liabilities** – Current liabilities consist of prizes awarded in the past year that remain unclaimed, amounts due to Aid to Education, accrued expenses, accounts payable, the value of Lottery tickets purchased in advance of game drawings (unearned ticket sales), the short-term portion of long-term prizes payable, and amounts due to employees for unused vacation leave. In total, these accounts increased by \$27 million during fiscal year 2021. This change can be compared to the year ended March 31, 2020, when there was a \$374 million annual decrease in total current liabilities.

**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 2021, noncurrent liabilities decreased by \$28.4 million, primarily due to the decrease of long-term prizes payable. During fiscal year 2020, noncurrent liabilities decreased by \$56.2 million, primarily due to the increase of the OPEB liability and a decrease in long-term prizes payable. Additional information about the Lottery's noncurrent liabilities can be found in Note 5 of the financial statements.

**Deferred Inflows of Resources** – Deferred inflows of resources relate to deferred pension costs and deferred OPEB determined in accordance with GASB Statement No. 68 and GASB Statement No. 75, respectively. Deferred inflows of resources decreased by \$2.7 million in fiscal year 2021, which was a 37.0% decrease from the previous year due to a decrease in the net difference between projected and actual investment earnings on pension plan investments and a decrease in differences between expected and actual experience for OPEB deferred inflows. During fiscal year 2020, deferred inflows of resources decreased by \$1 million, or 12.0%. Deferred pension inflows decreased primarily due to the net difference between projected and actual investment earnings on pension plan investments.

**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 is 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 presented on the statements of net position is largely the cumulative result of increases in the fair value of 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.

## 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 March 31, 2021, 2020 and 2019 (in millions).

	March 31,			2021 vs. 2020		2020 vs. 2019	
	2021	2020	2019	Dollar Change	Percent Change	Dollar Change	Percent Change
<i>Operating revenue</i>							
Lottery revenue, net	\$ 8,595	\$ 9,741	\$ 10,291	\$ (1,146)	(11.8)%	\$ (550)	(5.3)%
<i>Operating expenses</i>							
Direct expenses	(5,492)	(6,303)	(6,652)	(811)	(12.9)	(349)	(5.2)
Indirect expenses	(91)	(130)	(135)	(39)	(30.0)	(5)	(3.7)
Total operating expenses	(5,583)	(6,433)	(6,787)	(850)	(13.2)	(354)	(5.2)
Operating income	3,012	3,308	3,504	(296)	(8.9)	(196)	(5.6)
<i>Nonoperating revenue (expenses)</i>							
Nonoperating (expenses) income	(35)	229	85	(264)	(115.3)	144	169.4
Nonoperating expenses	(49)	(50)	(53)	(1)	(2.0)	(3)	(5.7)
Total nonoperating (expenses) revenue	(84)	179	32	(263)	(146.9)	147	(459.4)
Income before required allocation	2,928	3,487	3,536	(559)	(16.0)	(49)	(1.4)
Required allocation – contribution for Aid to Education	(3,591)	(3,377)	(3,474)	(214)	(6.3)	(97)	(2.8)
Transfer to NYS general fund	(4)	-	-	(4)	-	-	-
Lottery Aid Guarantee	693	-	-	693	-	-	-
Change in net position	26	110	62	(84)	(76.4)	48	77.4
Net position, beginning of year	455	345	283	110	31.9	62	21.9
<b>Net position, end of year</b>	<b>\$ 481</b>	<b>\$ 455</b>	<b>\$ 345</b>	<b>\$ 26</b>	<b>5.7 %</b>	<b>\$ 110</b>	<b>31.9%</b>

**Revenue** – 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 14,600 licensed retail locations across the State. The Lottery also achieves its mission through nine licensed video lottery gaming facilities located in Saratoga, Farmington, Hamburg, Batavia, Vernon, Yonkers, Suffolk and New York City (two facilities). During fiscal year 2020, Monticello Casino and Raceway ceased video gaming operations.

During fiscal year 2021, the Lottery achieved \$3.5 billion in draw sales, \$4.2 billion in instant sales, and \$900 million in video lottery gaming net machine income for a total of \$8.6 billion, a decrease of \$1.145 billion, or 11.8%, over the previous fiscal year, primarily due to the closure of video lottery gaming facilities due to the COVID-19 pandemic. During fiscal year 2020, the Lottery achieved \$3.6 billion in draw sales, \$4.1 billion in instant sales, and \$2 billion in video lottery gaming net machine income for a total of \$9.7 billion, a decrease of \$550 million, or 5.3%, over the previous fiscal year.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

### FINANCIAL ANALYSIS (continued)

The following table shows a comparison of the Lottery's revenue by game and the percentage of total revenue by game for March 31, 2021, 2020 and 2019 (in millions):

Game	2021		2020		2019	
	Revenue	Percent of total revenue	Revenue	Percent of total revenue	Revenue	Percent of total revenue
Mega Millions	\$ 334	3.9%	\$ 300	3.1%	\$ 480	4.6%
Lotto	59	0.7	65	0.7	69	0.7
Take 5	219	2.5	227	2.3	242	2.4
Pick 10	32	0.4	30	0.3	31	0.3
Numbers	942	11.0	947	9.7	912	8.9
Win 4	903	10.5	975	10.0	955	9.3
Powerball	257	3.0	251	2.6	390	3.8
Cash 4 Life	120	1.4	122	1.3	88	0.9
Instant	4,232	49.2	4,115	42.2	4,228	41.0
Quick Draw	568	6.6	695	7.1	814	7.9
Subtotal traditional lottery	7,666	89.2	7,727	79.3	8,209	79.8
Video gaming, net *	929	10.8	2,014	20.7	2,082	20.2
<b>Total revenue</b>	<b>\$ 8,595</b>	<b>100.0%</b>	<b>\$ 9,741</b>	<b>100.0%</b>	<b>\$ 10,291</b>	<b>100.0%</b>

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

	2021	2020	2019
Credits played	\$ 16,407	\$ 37,935	\$ 39,670
Credits won	(15,478)	(35,921)	(37,588)
<b>Net machine income</b>	<b>\$ 929</b>	<b>\$ 2,014</b>	<b>\$ 2,082</b>

**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 expenses. The largest expenditure in this category is prize expense, which made up 80.4% of direct expenses. Prizes decreased by \$209.1 million to \$4.4 billion in fiscal year 2021. At the same time, retailer commissions decreased by \$505.6 million to \$903.5 million, and gaming contractor fees decreased by \$89.3 million to \$136.2 million.

Prizes decreased by \$296.0 million to \$4.6 billion in fiscal year 2020. At the same time, retailer commissions decreased by \$46.4 million to \$1.4 billion, and gaming contractor fees decreased by \$9.2 million to \$225.6 million.

**Indirect Expenses** – Indirect expenses include marketing, state agency charges, personal services, fringe benefits and other administrative costs. These costs were \$91 million during fiscal year 2021, a decrease of 30.2% from the prior year. Corresponding costs in fiscal year 2020 were \$130.5 million, which was 3.4% lower than in fiscal year 2019.

**Nonoperating Revenue (Expenses)** – Nonoperating revenue 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 loss of \$43.3 million in 2021, income of \$217.1 million in 2020, and income of \$82.7 million in 2019 consists of both the fair value adjustments of investments plus the normal growth of the value of the Lottery's 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 causing significant differences from year to year.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

### FINANCIAL ANALYSIS *(continued)*

Investment 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 \$1.7 million from \$50.5 million in fiscal year 2020 to \$48.8 million in fiscal year 2021. 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** – Revenue and expenses for fiscal year 2021 resulted in revenue before required allocation totaling \$2.9 billion. This amount consists of a required allocation for Aid to Education of \$3.6 billion that transfers out as a contribution for Aid to Education, a transfer in of \$692.8 for a Lottery Aid Guarantee (see Note 1), a transfer out of \$4.1 million to the NYS general fund (see Note 1) and a \$26.4 million increase in net position for the year. The \$26.4 million increase in net position is a combination of a \$117.4 million increase in net position restricted for prizes and a \$91.0 million decrease in unrestricted net position. Revenue and expenses for fiscal year 2020 resulted in revenue before required allocation totaling \$3.5 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 a \$109.6 million increase in net position for the year. The \$109.6 million increase in net position is a combination of a \$41.6 million decrease in net position restricted for prizes and a \$151.2 million increase 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 was 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](mailto: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, 2021 and 2020

(In thousands)

	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>		
<i>Current assets</i>		
Cash and cash equivalents	\$ 765,143	\$ 635,608
Accounts receivable, net	492,898	455,416
Instant ticket inventory	13,148	13,267
Investments	112,017	111,023
Total current assets	<u>1,383,206</u>	<u>1,215,314</u>
<i>Noncurrent assets</i>		
Long-term investments, net	1,151,095	1,309,603
Capital assets	52	72
Total noncurrent assets	<u>1,151,147</u>	<u>1,309,675</u>
Total assets	2,534,353	2,524,989
<b>DEFERRED OUTFLOW OF RESOURCES</b>		
Total assets and deferred outflows of resources	<u>18,920</u>	<u>6,047</u>
	<u>2,553,273</u>	<u>2,531,036</u>
<b>LIABILITIES</b>		
<i>Current liabilities</i>		
Prizes payable	137,315	136,190
Unclaimed prizes	462,618	529,612
Due to Lottery Aid to Education	359,021	269,361
Accounts payable and accrued liabilities	6,847	3,878
Unearned ticket sales	9,981	9,879
Compensated absences	1,089	1,006
Total current liabilities	<u>976,871</u>	<u>949,926</u>
<i>Noncurrent liabilities</i>		
Compensated absences	219	203
Pension contribution payable	-	1,016
Net pension liability	11,988	3,604
Other postemployment benefits	74,882	65,491
Long-term prizes payable	1,003,293	1,048,494
Total noncurrent liabilities	<u>1,090,382</u>	<u>1,118,808</u>
Total liabilities	<u>2,067,253</u>	<u>2,068,734</u>
<b>DEFERRED INFLOW OF RESOURCES</b>		
Total liabilities and deferred inflows of resources	<u>4,553</u>	<u>7,228</u>
	<u>2,071,806</u>	<u>2,075,962</u>
<b>NET POSITION</b>		
Invested in capital assets	52	72
Restricted for future prizes	331,104	213,657
Unrestricted	150,311	241,345
Total net position	<u>\$ 481,467</u>	<u>\$ 455,074</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, 2021 and 2020

(In thousands)

	<u>2021</u>	<u>2020</u>
<b>OPERATING REVENUE</b>		
Lottery revenue, net	\$ 8,594,877	\$ 9,740,528
<i>Operating expenses</i>		
Prize expense, net	(4,414,498)	(4,623,604)
Retailer commissions	(903,542)	(1,409,168)
Gaming contractor fees	(136,229)	(225,568)
Instant ticket direct expenses	(20,962)	(26,747)
Telecommunications expenses	(16,730)	(17,479)
Total direct expenses	<u>(5,491,961)</u>	<u>(6,302,566)</u>
Marketing and advertising expenses	(53,125)	(90,752)
Personal service and fringe benefits	(27,584)	(27,753)
Other administrative costs	(4,929)	(5,023)
State agency charges	(5,377)	(6,908)
Depreciation	(20)	(20)
Total indirect expenses	<u>(91,035)</u>	<u>(130,456)</u>
Total operating expenses	<u>(5,582,996)</u>	<u>(6,433,022)</u>
Operating income	<u>3,011,881</u>	<u>3,307,506</u>
<b>NONOPERATING REVENUE (EXPENSES)</b>		
Investment (loss) Income	(43,291)	217,090
Other revenue, net	8,538	12,298
Investment expense, net	(48,783)	(50,494)
Total nonoperating (expenses) revenue, net	<u>(83,536)</u>	<u>178,894</u>
Income before required allocation	2,928,345	3,486,400
Required allocation for Lottery Aid to Education	(3,590,653)	(3,376,811)
Transfers to NYS general fund	(4,119)	-
Lottery Aid Guarantee	692,820	-
Change in net position	26,393	109,589
Net position, beginning of year	455,074	345,485
<b>Net position, end of year</b>	<u>\$ 481,467</u>	<u>\$ 455,074</u>

See accompanying notes to basic financial statements.

**NEW YORK STATE LOTTERY**  
**Statements of Cash Flows**  
**Years Ended March 31, 2021 and 2020**  
(In thousands)

	<u>2021</u>	<u>2020</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from net lottery revenue	\$ 8,559,231	\$ 9,830,643
Cash payments for prizes	(4,575,192)	(4,840,095)
Cash payments for commissions	(903,536)	(1,409,161)
Cash payments for contractor fees	(134,765)	(229,178)
Cash payments for telecommunications	(16,730)	(17,479)
Cash payments for instant ticket direct expenses	(21,132)	(27,529)
Cash payments for other operating expenses	(88,965)	(124,316)
Other cash receipts	8,537	12,298
Net cash provided by operating activities	<u>2,827,448</u>	<u>3,195,183</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from investment maturities	111,464	109,476
Purchases of investments	(19,568)	(39,932)
Interest on cash and cash equivalents and investments	22,483	39,111
Net cash provided by investing activities	<u>114,379</u>	<u>108,655</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Cash transfer to State for Lottery Aid to Education	(3,500,993)	(3,684,194)
Cash transferred to State General Fund	(4,119)	-
Cash received from State General Fund for Lottery Aid Guarantee	692,820	-
Net cash used in noncapital financing activities	<u>(2,812,292)</u>	<u>(3,684,194)</u>
Net change in cash and cash equivalents	129,535	(380,356)
Cash and cash equivalents, beginning of year	<u>635,608</u>	<u>1,015,964</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 765,143</u>	<u>\$ 635,608</u>
<i>Reconciliation of operating income to net cash provided by operating activities</i>		
Operating income	\$ 3,011,881	\$ 3,307,506
<i>Adjustments to reconcile operating income to net cash provided by operating activities</i>		
Depreciation	20	20
Other cash receipts	8,382	12,158
Investment expenses	(48,783)	(50,494)
<i>Change in operating assets, deferred outflows, liabilities and deferred inflows</i>		
Change in accounts receivable, net	(37,482)	51,180
Change in ticket inventory	119	(1,288)
Change in prizes payable	(44,076)	(56,641)
Change in unclaimed prizes	(66,994)	(69,709)
Change in compensated absences	99	(114)
Change in deferred outflows	(12,873)	(111)
Change in net pension liability	8,384	1,885
Change in other postemployment benefits	9,391	(539)
Change in deferred inflows	(2,675)	(986)
Change in pension contribution payable	(1,016)	(446)
Change in accounts payable and accrued liabilities	2,969	3,080
Change in unearned ticket sales	102	(318)
<b>Net cash provided by operating activities</b>	<u>\$ 2,827,448</u>	<u>\$ 3,195,183</u>
<i>Noncash investing activities</i>		
Increase in unrealized gains on investments	\$ (93,662)	\$ 149,219
Amortization of investment discount	28,043	28,902

See accompanying notes to basic financial statements.

**NEW YORK STATE LOTTERY**  
Notes to Financial Statements  
Years Ended March 31, 2021 and 2020

**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 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 (the State) through the administration of lottery games.

The accompanying financial statements are only those of the Lottery and do not present fairly the financial position of the State as of March 31, 2021 and 2020, and the changes in the State's financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). The Lottery is included in the State'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. Revenue is 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, 2021 and 2020

**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.

Interactive Fantasy Sports

Article 14 of the New York State Racing, Pari-Mutuel Wagering and Breeding Law authorizes licensed entities to conduct interactive fantasy sports wagering. All taxes derived from the conduct of such activity is deposited into the interactive fantasy sports education account (a non-enterprise fund account). Chapter 56 of the Laws of 2020 authorized the deposit of \$5 million from the interactive fantasy sports education account to the lottery education account for supplemental aid to education. The amount is recognized in other revenue, net in the financial statements.

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.

**NEW YORK STATE LOTTERY**  
Notes to Financial Statements  
Years Ended March 31, 2021 and 2020

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

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).

Fund Transfers

The New York State budget guarantees the amount of education funding provided by the Lottery (Lottery Aid Guarantee) by way of a transfer from the New York State general fund. Due to a COVID related decline in revenue, a Lottery Aid Guarantee transfer was required in the amount of \$692,820,000 for fiscal year 2021.

The New York State budget authorizes the transfer of up to \$1 billion from any enterprise fund to the New York State general fund. For fiscal year 2021, \$4,119,000 was transferred from Lottery administrative expense funds to the New York State general fund.

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.

**NEW YORK STATE LOTTERY**  
Notes to Financial Statements  
Years Ended March 31, 2021 and 2020

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

Allocation of Revenue from Ticket Sales

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

- Allocations of ticket sales revenue to New York for educational purposes are to be at least 20.75% for the New York State Lottery Instant Games, 30.00% for multi-state games such as Mega Millions, Powerball, Cash 4 Life, 35.00% for Take 5, Numbers, Win-4, and Pick 10, 45.00% for Lotto and promotional games, and 25.00% for Quick Draw. In addition, the Lottery has statutory authority to issue up to five Instant Games per year with at least 10.75% for educational purposes. For video lottery, the required allocation to education is a varying percent of each facility's annual incremental net machine income, generally dependent on the facilities' geographic location.
- Allocations of ticket sales revenue for the payment of lottery prizes are not to exceed 64.25% for the New York State Lottery Instant Games, 55.00% for multi-state games, such as Mega Millions, Powerball, Cash 4 Life, 50.00% for Take 5, Numbers, Win-4, and Pick 10, 40.00% for Lotto and 60.00% for Quick Draw. In addition, the Lottery has statutory authority to issue up to five Instant Games per year with up to 74.25% 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 \$300,182,569 and \$257,717,899 for fiscal years 2021 and 2020, respectively. Administrative expenses incurred by the Lottery represent telecommunications, advertising, salary and other operating costs.

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 through the Short-Term Investment Pool (STIP), which is used for the temporary investment of funds not required for immediate payments. Only investments with maturities of 90 days or less at the time of purchase are classified as cash equivalents.

**NEW YORK STATE LOTTERY**  
Notes to Financial Statements  
Years Ended March 31, 2021 and 2020

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

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 valued at cost by game. Tickets are charged to instant ticket direct expense under the first-in, first-out accounting method when activated for sale by 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, 2021 and 2020 (in thousands).

	<u>2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>2021</u>
<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	1,506	-	-	1,506	-	-	1,506
Accumulated depreciation	(1,414)	(20)	-	(1,434)	(20)	-	(1,454)
Net value	92	(20)	-	72	(20)	-	52
<b>Total</b>	<u>\$ 92</u>	<u>\$ (20)</u>	<u>\$ -</u>	<u>\$ 72</u>	<u>\$ (20)</u>	<u>\$ -</u>	<u>\$ 52</u>

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 revenue, net in the period of disposal.

**NEW YORK STATE LOTTERY**  
Notes to Financial Statements  
Years Ended March 31, 2021 and 2020

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

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 revenue, 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 as of March 31, 2021 and 2020 were \$462,618,000 and \$529,612,000, respectively. Prizes unclaimed for one year after the drawing date (lapsed) are forfeited by the ticket holder. Total prizes lapsed amounted to approximately \$232,776,000 and \$181,778,000 for fiscal years 2021 and 2020, 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 2021 and 2020, these supplemental prizes were used for Mega Millions, Powerball, Cash 4 Life, Lotto, Quick Draw, Take 5, Numbers, Win 4, and various Instant Games. Effective in fiscal year 2020, New York State Tax Law Section 1614 requires any lapsed prizes in excess of sixty million dollars for the fiscal year to be allocated to Education. The total amount of lapsed prizes (including the Lottery's share of multi-state games) and interest on such funds allocated to Aid to Education for fiscal years 2021 and 2020 was approximately \$176,236,000 and 138,657,000, respectively.

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 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, 2021 and 2020

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

Multi-State Lottery Association (MUSL)

Effective July 1, 2019, the Lottery became a member of the Multi-State Lottery Association (MUSL). MUSL is a non-profit, government benefit association owned and operated by its member lotteries. MUSL included 35 state lotteries as well as the lotteries of the District of Columbia, Puerto Rico and the U.S. Virgin Islands as of March 31, 2021. MUSL performs certain administrative and marketing functions on behalf of its members. Through membership in MUSL, the Lottery participates in the multi-jurisdictional lottery games of Powerball and Mega Millions. A copy of the MUSL financial statements may be obtained by submitting a written request to MUSL, 8101 Birchwood Court, Suite R, Johnston, IA 50131.

Recently Issued Accounting Pronouncements

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities* (GASB Statement No. 84). This statement generally focuses on whether a government is controlling the assets of the fiduciary activity, and the beneficiaries with whom the fiduciary relationship exists. Fiduciary Fund statements should include pension trusts, investment trusts, private purpose trusts, and custodial funds. There was no material impact to the financial statements as a result of adopting and implementing GASB 84.

During 2017, the GASB issued Statement No. 87, *Leases* (GASB Statement No. 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 Statement No. 87 is effective for the Lottery's March 31, 2023 financial statements. The Lottery is evaluating the impact of this Statement on the financial statements.

**NEW YORK STATE LOTTERY**  
Notes to Financial Statements  
Years Ended March 31, 2021 and 2020

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

Recently Issued Accounting Pronouncements (continued)

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance the comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. Implementation of GASB 92 is planned for fiscal years 2022 and 2023. Currently, the Lottery is evaluating the impact of GASB No. 92 on the financial statements.

During 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96). The objective of this Statement is to better meet the information needs of financial statement users by establishing uniform accounting and financial reporting requirements for subscription-based information technology arrangements (SBITA). The SBITA is defined as a contract that conveys the control of the right to use another party's information technology software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange like transaction. This Statement increases the usefulness of governments' financial statements by requiring recognition of an intangible SBITA asset and corresponding subscription liability. This Statement also provides capitalization criteria for outlays other than subscription payments including implementation costs of an SBITA and requires certain note disclosures. GASB 96 is effective for the Lottery's March 31, 2024 financial statements. Currently, the Lottery is evaluating the impact of GASB No. 96 on the financial statements.

During 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The objectives of this Statement are to better meet the information needs of financial statement users relating to Section 457 plans of fiduciary component units and mitigate costs associated with the reporting of certain defined plans. This Statement establishes the criteria for determining whether a primary government is financially accountable for a potential component unit and requires that a Section 457 plan be classified as either a pension plan or another employee benefit plan depending on whether the plan meets the definition of a pension plan. GASB No. 97 is effective for the Lottery's fiscal year ending March 31, 2023. Currently, the Lottery is evaluating the impact of GASB No. 97 on the financial statements.

**NEW YORK STATE LOTTERY**  
Notes to Financial Statements  
Years Ended March 31, 2021 and 2020

**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 was \$738,695,000 and \$615,195,000 as of March 31, 2021 and 2020, 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. As of March 31, 2021 and 2020, the amount of sole custody accounts included in cash and cash equivalents was \$26,448,000 and \$20,413,000, respectively.

The Lottery's deposits are collateralized under a program administered by the Office of the State Comptroller of the State of New York. 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 the 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 as of March 31, 2021 and 2020 was \$1,263,112,000 and \$1,420,626,000, respectively. During fiscal years 2021 and 2020, approximately \$28,043,000 and \$28,902,000, respectively, of amortized discount was included in investment income.

**NEW YORK STATE LOTTERY**  
Notes to Financial Statements  
Years Ended March 31, 2021 and 2020

**NOTE 3 INVESTMENTS** *(continued)*

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

	<u>2021</u>	<u>2020</u>
Maturity value	\$ 1,330,881	\$ 1,418,290
Unamortized discount	<u>(250,212)</u>	<u>(273,769)</u>
Total at amortized cost	1,080,669	1,144,521
Less: Investments, maturing within one year, at amortized cost	<u>107,804</u>	<u>107,975</u>
<b>Long-term investments, at amortized cost</b>	<u><u>\$ 972,865</u></u>	<u><u>\$ 1,036,546</u></u>

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.

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 as of March 31, 2021 and 2020.

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 as of March 31 were as follows (in thousands):

Investments	2021			2020		
	Level 1	Level 2	Total	Level 1	Level 2	Total
U.S. Treasury strips	\$ 6,252	\$ -	\$ 6,252	\$ 6,560	\$ -	\$ 6,560
U.S. Treasury bonds	613,072	-	613,072	704,310	-	704,310
New York City Transitional Finance Authority bonds	-	454,533	454,533	-	484,510	484,510
Bonds guaranteed by U.S. Agency for International Development	-	189,255	189,255	-	225,246	225,246
<b>Total investments</b>	<u>\$ 619,324</u>	<u>\$ 643,788</u>	<u>\$ 1,263,112</u>	<u>\$ 710,870</u>	<u>\$ 709,756</u>	<u>\$ 1,420,626</u>

**NEW YORK STATE LOTTERY**  
Notes to Financial Statements  
Years Ended March 31, 2021 and 2020

**NOTE 3 INVESTMENTS** *(continued)*

Maturities of the investments in each of the five fiscal years following March 31, 2021, and the five-year incremental totals thereafter, are as follows (in thousands):

	<u>Maturities</u>	<u>Interest Due</u>	<u>Total</u>
2022	\$ 111,365	\$ 19,974	\$ 131,339
2023	96,813	19,001	115,814
2024	93,003	18,091	111,094
2025	98,104	16,990	115,094
2026	66,850	15,830	82,680
2027-2031	271,113	69,258	340,371
2032-2036	160,314	58,988	219,302
2037-2041	305,893	25,870	331,763
2042-2046	94,262	-	94,262
2047-2051	33,164	-	33,164
	<u>\$ 1,330,881</u>	<u>\$ 244,002</u>	<u>\$ 1,574,883</u>

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, 2021 and 2020, the Lottery had the following investments and maturities (amounts in thousands):

Investment Type	2021 Fair Value	Moody's Credit Rating	S&P Credit Rating	2021 Investment Maturities (Fair Value)		
				Less than Five Years	5 Years to 10 Years	More than 10 Years
U.S. Treasury strips	\$ 6,252	N/A	N/A	\$ -	\$ 6,252	\$ -
U.S. Treasury bonds	613,072	N/A	N/A	208,732	158,598	245,742
New York City Transitional Finance Authority bonds Bonds guaranteed by U.S. Agency for International Development	454,533	Aa1	AAA	114,890	40,272	299,371
	<u>189,255</u>	N/A	N/A	<u>149,675</u>	<u>39,580</u>	<u>-</u>
<b>Total</b>	<u>\$ 1,263,112</u>			<u>\$ 473,297</u>	<u>\$ 244,702</u>	<u>\$ 545,113</u>

**NEW YORK STATE LOTTERY**  
Notes to Financial Statements  
Years Ended March 31, 2021 and 2020

**NOTE 3 INVESTMENTS (continued)**

Investment Type	2020 Fair Value	Moody's Credit Rating	S&P Credit Rating	2020 Investment Maturities (Fair Value)		
				Less than Five Years	5 Years to 10 Years	More than 10 Years
				U.S. Treasury strips	\$ 6,560	N/A
U.S. Treasury bonds	704,310	N/A	N/A	220,317	171,560	312,433
New York City Transitional Finance Authority bonds	484,510	Aa1	AAA	110,209	65,326	308,975
Bonds guaranteed by U.S. Agency for International Development	225,246	N/A	N/A	179,016	46,230	-
<b>Total</b>	<b>\$ 1,420,626</b>			<b>\$ 509,542</b>	<b>\$ 289,676</b>	<b>\$ 621,408</b>

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.

**NOTE 4 PRIZES PAYABLE**

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

	<b>2021</b>	<b>2020</b>
Total obligation	\$ 1,606,338	\$ 1,724,294
Unamortized discount	(465,730)	(539,610)
Total carrying amount	1,140,608	1,184,684
Less: Prizes payable within one year	137,315	136,190
<b>Long-term prizes payable</b>	<b>\$ 1,003,293</b>	<b>\$ 1,048,494</b>

The amortized discount on the prizes payable is based on interest rates ranging from 0.14% to 7.69% and 0.29% to 7.75% for fiscal years 2021 and 2020, respectively, 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 \$48,783,000 and \$50,494,000 for fiscal years 2021 and 2020, respectively.

**NEW YORK STATE LOTTERY**  
Notes to Financial Statements  
Years Ended March 31, 2021 and 2020

**NOTE 4 PRIZES PAYABLE (continued)**

The aggregate amount of prizes payable due in each of the five fiscal years following March 31, 2021, and the five-year incremental totals thereafter, is as follows (in thousands):

<u>Year</u>	<u>Amount</u>
2022	\$ 132,597
2023	119,691
2024	110,921
2025	101,645
2026	95,390
2027-2031	350,479
2032-2036	203,588
2037-2041	143,483
2042-2046	118,128
2047-2051	98,531
2052-2056	53,472
2057-2061	40,856
Thereafter	37,557
	<u>\$ 1,606,338</u>

**NOTE 5 LONG-TERM LIABILITIES**

The Lottery's long-term liabilities as of March 31, 2021 and 2020 are comprised of the following (in thousands):

	<u>Balance at March 31, 2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at March 31, 2021</u>	<u>Current Portion</u>
Compensated absences (Note 11)	\$ 1,209	\$ 999	\$ (900)	\$ 1,308	\$ 1,089
Pension contribution payable (Note 7)	1,360	-	(1,360)	-	-
Net pension liability (Note 7)	3,604	11,103	(2,719)	11,988	-
Other postemployment benefits (Note 10)	65,491	11,536	(2,145)	74,882	-
Prizes payable (Note 4)	1,184,684	84,145	(128,221)	1,140,608	137,315
<b>Total</b>	<u>\$ 1,256,348</u>	<u>\$ 107,783</u>	<u>\$ (135,345)</u>	<u>\$ 1,228,786</u>	<u>\$ 138,404</u>
	<u>Balance at March 31, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at March 31, 2020</u>	<u>Current Portion</u>
Compensated absences (Note 11)	\$ 1,323	\$ 1,036	\$ (1,150)	\$ 1,209	\$ 1,006
Pension contribution payable (Note 7)	1,845	-	(485)	1,360	344
Net pension liability (Note 7)	1,719	1,885	-	3,604	-
Other postemployment benefits (Note 10)	66,030	1,603	(2,142)	65,491	-
Prizes payable (Note 4)	1,241,325	73,283	(129,924)	1,184,684	136,190
<b>Total</b>	<u>\$ 1,312,242</u>	<u>\$ 77,807</u>	<u>\$ (133,701)</u>	<u>\$ 1,256,348</u>	<u>\$ 137,540</u>

**NEW YORK STATE LOTTERY**  
Notes to Financial Statements  
Years Ended March 31, 2021 and 2020

**NOTE 6 REQUIRED ALLOCATION FOR AID TO EDUCATION**

The required allocation and contribution transferred out for Aid to Education during the fiscal years ended March 31, 2021 and 2020 are as follows (in thousands):

	<u>2021</u>	<u>2020</u>
Cash transferred to Aid to Education	\$ 3,500,993	\$ 3,684,194
Prior-year payable	(269,361)	(576,744)
Current-year payable	<u>359,021</u>	<u>269,361</u>
<b>Required allocation for Aid to Education</b>	<u>\$ 3,590,653</u>	<u>\$ 3,376,811</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 (the System), which is a cost-sharing, multi-employer public employee retirement system. The Comptroller of the State of New York is the sole trustee and administrative head of the System.

For purposes of determining net pension liability and other pension-related amounts, information about the fiduciary net position of the 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](http://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 \$2,719,000 and \$2,945,000 during fiscal years 2021 and 2020, respectively, to cover required employer contributions for retirement benefits, which equaled 100% of the required contribution in each year. These payments represented 16.96% and 17.54% of covered payroll for 2021 and 2020, respectively.

**NEW YORK STATE LOTTERY**  
Notes to Financial Statements  
Years Ended March 31, 2021 and 2020

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

Net Pension Liabilities and Other Pension-Related Amounts

The Lottery recognized a net pension liability of \$11,987,968 and \$3,604,249 as of March 31, 2021 and 2020, 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, 2021, was measured as of March 31, 2020, and was determined using an actuarial valuation as of April 1, 2019, with updated procedures used to roll forward the total pension liability to March 31, 2020. The State of New York's proportion of the ERS net pension liability measured as of March 31, 2020, was 43% for the ERS, which was comparable with the proportions allocated to the State as of March 31, 2019 of 43%. 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 the ERS was compared to the total projected long-term contribution effort from all employers to the ERS in order to determine the State's proportion of the plan's net pension liability.

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 as of March 31, 2020 and 2019 allocated to the Lottery enterprise fund was 0.11% and 0.12%, respectively.

Actuarial Assumptions

The total pension liability for the March 31, 2020 measurement date was determined by using an actuarial valuation as of April 1, 2019, with update procedures used to roll forward the total pension liability to March 31, 2020. The total pension liability for the March 31, 2019 measurement date was determined by using an actuarial valuation as of April 1, 2018, with update procedures used to roll forward the total pension liability to March 31, 2019. The actuarial valuation for the ERS used the following actuarial assumptions for the valuations as of April 1, 2019 and 2018:

Inflation	2.5%
Salary scale	4.2 %
Investment rate of return, including inflation	6.8% (2019); 7.0% (2018) compounded annually, net of investment expenses
Cost-of-living adjustments	1.3% annually
Decrements	Based upon fiscal year 2011-15 experience
Pensioner mortality	Gender/Collar specific tables based upon fiscal year 2011-2015 experience
Mortality improvement	Society of Actuaries Scale MP-2018 (2019); Society of Actuaries Scale MP-2014 (2018)

**NEW YORK STATE LOTTERY**  
Notes to Financial Statements  
Years Ended March 31, 2021 and 2020

**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:

<b>Valuation as of April 1, 2019</b>		
<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-term Expected Rate of Return</b>
Domestic equity	36%	4.05%
International equity	14	6.15
Private equity	10	6.75
Real estate	10	4.95
Absolute return strategies	2	3.25
Opportunistic portfolio	3	4.65
Real estate	3	5.95
Bonds and mortgages	17	0.75
Cash	1	0.00
Inflation-indexed bonds	4	0.50
<b>Total</b>	<b>100%</b>	

<b>Valuation as of April 1, 2018</b>		
<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-term Expected Rate of Return</b>
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
<b>Total</b>	<b>100%</b>	

**NEW YORK STATE LOTTERY**  
Notes to Financial Statements  
Years Ended March 31, 2021 and 2020

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

Discount Rate

The discount rate used to calculate the ERS total pension liability at March 31, 2021 and 2020 was 6.8% and 7.0%, respectively. 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 (5.8%)*</u>	<u>Current Assumption (6.8%)*</u>	<u>1% Increase (7.8%)*</u>
March 31, 2021	\$ 22,001	\$ 11,988	\$ 2,766
March 31, 2020	\$ 15,758	\$ 3,604	\$ (6,606)

\* The discount rate at March 31, 2020 was 7% (current assumption); 6% (1% decrease); and 8% (1% increase).

**NEW YORK STATE LOTTERY**  
Notes to Financial Statements  
Years Ended March 31, 2021 and 2020

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

Discount Rate *(continued)*

For the years ended March 31, 2021 and 2020, the Lottery recognized a net pension liability of \$11,987,968 and \$3,604,249, respectively, for its proportionate share of the ERS net pension liability. For the years ended March 31, 2021 and 2020, the Lottery recognized pension expense of \$4,015,014 and \$2,335,450, 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>2021</u>	<u>2020</u>
Difference between expected and actual experience	\$ 706	\$ 710
Changes in assumptions	241	906
Net difference between projected and actual investment earnings on pension plan investments	6,146	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	17	34
Contributions made subsequent to measurement date	<u>1,795</u>	<u>1,886</u>
<b>Total deferred outflows of resources</b>	<b><u>\$ 8,905</u></b>	<b><u>\$ 3,536</u></b>
	<u>2021</u>	<u>2020</u>
Difference between expected and actual experience	\$ -	\$ 242
Changes in assumptions	208	-
Net difference between projected and actual investment earnings on pension plan investments	-	925
Changes in proportion and differences between employer contributions and proportionate share of contributions	172	149
<b>Total deferred inflows of resources</b>	<b><u>\$ 380</u></b>	<b><u>\$ 1,316</u></b>

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

<u>Year</u>	<u>Amount</u>
2022	\$ 1,102,491
2023	1,676,734
2024	2,184,619
2025	1,766,116

The amount of deferred outflows of resources as of March 31, 2021 and 2020 that will be applied as a reduction of the pension liability in the subsequent fiscal period was \$1,795,000 and \$1,886,000, respectively.

**NEW YORK STATE LOTTERY**  
Notes to Financial Statements  
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**NOTE 8 OPERATING INCOME**

Composition of operating income for fiscal 2021 and 2020 by type of lottery game is as follows (in thousands):

	2021					
	Expenses					Net
Revenue	Prizes**	Commissions	Fees	Instant Direct Expense		
Mega Millions	\$ 333,933	\$ (161,661)	\$ (19,640)	\$ (3,713)	\$ -	\$ 148,919
Lotto	59,663	(26,773)	(3,260)	(684)	-	28,946
Take 5	218,750	(107,284)	(13,125)	(1,975)	-	96,366
Pick 10	31,836	(15,243)	(1,910)	(288)	-	14,395
Numbers	942,313	(442,420)	(56,539)	(8,508)	-	434,846
Win 4	903,244	(381,905)	(54,195)	(8,155)	-	458,989
Powerball	257,074	(125,390)	(15,435)	(2,832)	-	113,417
Cash 4 Life	119,718	(69,526)	(6,805)	(1,254)	-	42,133
Instant	4,231,743	(2,749,061)	(253,904)	(40,608)	(20,962)	1,167,208
Quick Draw	567,863	(337,296)	(34,072)	(5,375)	-	191,120
Total traditional lottery	7,666,137	(4,416,559)	(458,885)	(73,392)	(20,962)	2,696,339
Video gaming	928,740 *	2,061	(444,657)	(62,837)	-	423,307
	<u>\$ 8,594,877</u>	<u>\$ (4,414,498)</u>	<u>\$ (903,542)</u>	<u>\$ (136,229)</u>	<u>\$ (20,962)</u>	3,119,646
Telecommunications						(16,730)
Indirect expenses						<u>(91,035)</u>
<b>Total operating income</b>						<u>\$ 3,011,881</u>

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

Credits played	\$ 16,407,139
Credits won	<u>(15,478,399)</u>
<b>Net machine income</b>	<u>\$ 928,740</u>

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

	2020					
	Expenses					Net
Revenue	Prizes**	Commissions	Fees	Instant Direct Expense		
Mega Millions	\$ 300,124	\$ (149,344)	\$ (17,672)	\$ (3,580)	\$ -	\$ 129,528
Lotto	64,890	(28,839)	(3,574)	(765)	-	31,712
Take 5	226,977	(111,571)	(13,619)	(2,098)	-	99,689
Pick 10	29,630	(15,741)	(1,778)	(274)	-	11,837
Numbers	947,116	(477,453)	(56,827)	(8,754)	-	404,082
Win 4	975,369	(517,494)	(58,522)	(9,015)	-	390,338
Powerball	250,740	(119,885)	(15,064)	(2,948)	-	112,843
Cash 4 Life	122,247	(69,432)	(7,031)	(1,290)	-	44,494
Instant	4,114,390	(2,712,146)	(246,862)	(40,976)	(26,747)	1,087,659
Quick Draw	695,169	(422,624)	(41,710)	(6,771)	-	224,064
Total traditional lottery	7,726,652	(4,624,529)	(462,659)	(76,471)	(26,747)	2,536,246
Video gaming	2,013,876 *	925	(946,509)	(149,097)	-	919,195
	<u>\$ 9,740,528</u>	<u>\$ (4,623,604)</u>	<u>\$ (1,409,168)</u>	<u>\$ (225,568)</u>	<u>\$ (26,747)</u>	3,455,441
Telecommunications						(17,479)
Indirect expenses						<u>(130,456)</u>
<b>Total operating income</b>						<u>\$ 3,307,506</u>

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

Credits played	\$ 37,934,770
Credits won	<u>(35,920,894)</u>
<b>Net machine income</b>	<u>\$ 2,013,876</u>

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

**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, which is 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 and the 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. The NYSHIP does not issue a stand-alone financial report and the NYSHIP's agent activities are included within the financial statements of the State.

During the fiscal years ended March 31, 2021 and 2020, 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  
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**NOTE 10 OTHER POSTEMPLOYMENT BENEFITS** *(continued)*

General Information about the OPEB Plan *(continued)*

There were 394 total Lottery employees and participants covered by the benefit terms, as follows: 218 active employees, one inactive participant entitled to but not yet receiving benefits and 175 retirees and surviving spouses receiving benefit payments. There were annual pay-as-you-go disbursements of \$2,289,068 and \$2,145,091 for 2021 and 2020, 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

As of March 31, 2021 and 2020, the Lottery reported a liability of \$74,881,721 and \$65,490,993, respectively, for its proportionate share of the net OPEB liability included in the accompanying statements of net position. The net OPEB liability as of March 31, 2021 and 2020 was measured as of March 31, 2020 and 2019, respectively, and was determined by an actuarial valuation as of April 1, 2019 and 2018, respectively, with updated procedures used to roll forward the net OPEB liability to March 31, 2020 and 2019, respectively.

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 as of March 31, 2021 and 2020 allocated to the Lottery enterprise fund was 0.126% and 0.127%, respectively.

The actuarial valuation included the following actuarial assumptions:

Actuarial cost method	Entry age normal
Inflation	2.5%
Discount rate	2.84% (2019); 3.79% (2018)
Mortality improvement	Society of Actuaries' Scale MP-2018 (2019); Society of Actuaries' Scale MP-2014 (2018);

The discount rate for fiscal years ended March 31, 2020 and 2019 is based on the Bond Buyer 20-year general obligation municipal bond index rate at March 31, 2020 and 2019, respectively.

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

For the measurement period ended March 31, 2020, the 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 a 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 a 4.50% long-term trend rate for all health care benefits after seven years. The drug assumption begins at 9.00% and decreases to a 4.50% long-term trend rate after seven years.

**NEW YORK STATE LOTTERY**  
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**NOTE 10 OTHER POSTEMPLOYMENT BENEFITS** *(continued)*

Actuarial Methods and Assumptions *(continued)*

For the measurement period ended March 31, 2019, the 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 a 4.50% long-term trend rate for all health care benefits after eight years. The trend assumption for post-65 begins at 5.10% and decreases to a 4.50% long-term trend rate for all health care benefits after eight years. The drug assumption begins at 9.00% and decreases to a 4.50% long-term trend rate after seven years.

Additionally, a trend starting at 9.00% per year and decreasing to 4.50% after seven 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, 2020 measurement date described above, which affected the measurement of the collective total OPEB liability since the prior measurement date as of March 31, 2019.

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.

Net OPEB Liability

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

	<u>March 31, 2020</u>	<u>March 31, 2019</u>
Service cost	\$ 1,950	\$ 2,022
Interest	2,441	2,561
Differences between expected and actual experience	481	448
Change in assumptions	6,664	(3,428)
Benefit payments	<u>(2,145)</u>	<u>(2,142)</u>
Net changes	9,391	(539)
Total OPEB liability, beginning of fiscal year	<u>65,491</u>	<u>66,030</u>
<b>Total OPEB liability, end of fiscal year</b>	<u><b>\$ 74,882</b></u>	<u><b>\$ 65,491</b></u>

There were no significant changes between the March 31, 2020 measurement date and March 31, 2021 that will have a significant effect on the total OPEB liability at March 31, 2021.

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

**NEW YORK STATE LOTTERY**  
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**NOTE 10 OTHER POSTEMPLOYMENT BENEFITS** *(continued)*

Net OPEB Liability *(continued)*

*Sensitivity of net OPEB liability to change in discount rate.* The following presents the net OPEB liability of the Lottery at March 31, 2021 and 2020, as well as what the Lottery's net OPEB liability would be if it were calculated using a discount rate that is 1% lower and 1% higher than the current year rate (in thousands):

<b>Total OPEB Liability</b>	<b>1% Decrease (1.84%)*</b>	<b>Current Assumption (2.84%)*</b>	<b>1% Increase (3.84%)*</b>
March 31, 2021	\$ 89,388	\$ 74,882	\$ 63,587
March 31, 2020	\$ 77,243	\$ 65,491	\$ 56,225

\* The discount rate at March 31, 2020 was 3.79% (current assumption); 2.79% (1% decrease); and 4.79% (1% increase).

*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, 2021, 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):

<b>Total OPEB Liability</b>	<b>1% Decrease</b>	<b>Current Assumption</b>	<b>1% Increase</b>
March 31, 2021	\$ 62,261	\$ 74,882	\$ 91,566
March 31, 2020	\$ 55,134	\$ 65,491	\$ 78,966

**NEW YORK STATE LOTTERY**  
Notes to Financial Statements  
Years Ended March 31, 2021 and 2020

**NOTE 10 OTHER POSTEMPLOYMENT BENEFITS** *(continued)*

In 2021 and 2020, the Lottery recognized expenses related to OPEB of \$2,437,869 and \$1,996,645, respectively, which is included in personnel service and fringe benefits expenses in the accompanying statements of revenue, expenses, and changes in net position. As of March 31, 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>2021</u>	<u>2020</u>
Difference between expected and actual experience	\$ 669	\$ 366
Changes in assumptions or other inputs	7,056	-
Employer contributions subsequent to measurement date	2,289	2,145
<b>Total deferred outflows of resources</b>	<u>\$ 10,014</u>	<u>\$ 2,511</u>
	<u>2021</u>	<u>2020</u>
	<u>2021</u>	<u>2020</u>
Difference between expected and actual experience	\$ 2,641	\$ 3,774
Changes in assumptions or other inputs	1,532	2,138
<b>Total deferred inflows of resources</b>	<u>\$ 4,173</u>	<u>\$ 5,912</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>
2022	\$ 265
2023	265
2024	703
2025	1,506
2026	813

The amount of deferred outflows of resources as of March 31, 2021 and 2020 that will be applied as a reduction of the OPEB liability in the subsequent period is \$2,289,068 and \$2,145,091, respectively.

**NEW YORK STATE LOTTERY**  
Notes to Financial Statements  
Years Ended March 31, 2021 and 2020

**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 \$1,308,000 and \$1,209,000 as of March 31, 2021 and 2020, 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 \$2,284,000 and \$2,421,000 in 2021 and 2020, respectively.

Future minimum lease payments under all noncancelable leases having initial or remaining terms in excess of one year as of March 31, 2021 are as follows (in thousands):

<u>Year</u>	<u>Operating Leases</u>
2022	\$ 2,365
2023	1,956
2024	1,156
2025	929
2026	905
2027 and thereafter	<u>2,452</u>
<b>Total minimum payments required</b>	<b><u><u>\$ 9,763</u></u></b>

**NOTE 13 COMMITMENTS AND CONTINGENCIES**

Contractual Arrangements

The Lottery maintains a gaming network of approximately 14,600 retailer locations where all traditional lottery games are sold. Instant Game tickets are also sold through approximately 4,200 self-service terminals. International Game Technology (formerly known as GTECH Corporation) is responsible for operating all traditional Lottery games, including maintenance of terminals and related communication services, under a contract expiring on August 6, 2022.

**NEW YORK STATE LOTTERY**  
Notes to Financial Statements  
Years Ended March 31, 2021 and 2020

**NOTE 13      COMMITMENTS AND CONTINGENCIES** *(continued)*

Contractual Arrangements *(continued)*

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

- (1) Under a contract amendment that expires August 5, 2021, Scientific Games International is the primary supplier of Instant Game tickets.
- (2) Under a contract amendment expiring August 5, 2021, Pollard Banknote Limited is an alternate supplier of Instant Game tickets.
- (3) Under a contract amendment that expires on August 5, 2021, IGT Global Solutions Corporation (formerly known as GTECH Printing Corporation) is an alternate supplier of Instant Game tickets.

Video lottery games are offered on approximately 10,825 video gaming machines spread over nine video lottery gaming facilities. Everi Games, Inc. provides a central processing system for the operation of video lottery games under a contract expiring on December 31, 2029. Video lottery gaming machines are provided under contracts expiring on October 31, 2021 with two different companies: Bally Gaming Inc. and International Game Technology. 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.

Effects of COVID-19

On March 22, 2020, Governor Cuomo announced the "New York State on PAUSE" executive order in response to the global COVID-19 pandemic. Among other measures, the order closed all non-essential businesses statewide. Traditional lottery games were deemed essential and continued to operate. Consumer demand and retail points of sale were negatively affected. Video lottery gaming facilities were closed until September 2020, at which time they reopened at limited capacity. During the period of closure, there was no revenue from video lottery gaming. The loss of revenue from both traditional and video lottery games resulted in a Lottery Aid Guarantee from the State general fund of \$692,820,000 in 2021.

**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**

**NEW YORK STATE LOTTERY**

Required Supplementary Information (Unaudited)  
 Years Ended March 31, 2021 and 2020

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)

<b>Fiscal Year End</b>	<b>Lottery's Proportionate (Percentage) Share of Collective Net Pension Liability</b>	<b>Lottery's Proportionate (Amount) Share of Collective Net Pension Liability</b>	<b>Lottery's Covered Payroll</b>	<b>Lottery's Proportionate Share of Collective Net Pension Liability as a Percentage of Covered Payroll</b>	<b>Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability</b>
2021	0.11%	\$11,988	\$16,790	71.40%	86.39%
2020	0.12%	\$3,604	\$18,058	19.96%	96.27%
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 illustrates 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, 2021 and 2020

**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)

<b>Fiscal Year End</b>	<b>Required Contributions</b>	<b>Lottery's Contributions Recognized by the Pension Plan</b>	<b>Contribution Excess/ (Deficiency)</b>	<b>Lottery's Covered Payroll</b>	<b>Lottery's Contributions as a Percentage of Covered Payroll</b>
2021	\$2,719	\$2,719	-	\$16,035	16.96%
2020	\$2,945	\$2,945	-	\$16,790	17.54%
2019	\$3,328	\$3,328	-	\$18,058	18.43%
2018	\$3,414	\$3,414	-	\$18,633	18.32%
2017	\$2,896	\$2,896	-	\$17,546	16.51%
2016	\$2,921	\$2,921	-	\$17,583	16.61%

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, 2021 and 2020

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,  
 (Dollars in thousands)

	<u>2021</u>	<u>2020</u>	<u>2019</u>
<i>Total OPEB liability</i>			
Service cost	\$ 1,950	\$ 2,022	\$ 2,184
Interest	2,441	2,561	2,725
Differences between actual and expected experience	481	448	(5,980)
Changes of assumptions or other inputs	6,664	(3,428)	(294)
Benefit payments	<u>(2,145)</u>	<u>(2,142)</u>	<u>(2,034)</u>
Net change in total OPEB liability	9,391	(539)	(3,399)
Total OPEB liability, beginning	<u>65,491</u>	<u>66,030</u>	<u>69,429</u>
<b>Total OPEB liability, ending</b>	<u><u>\$ 74,882</u></u>	<u><u>\$ 65,491</u></u>	<u><u>\$ 66,030</u></u>
Net position as a percentage of OPEB liability	N/A	N/A	N/A
Covered payroll	\$ 9,774	\$ 10,712	\$ 11,426
Net OPEB liability as a percentage of covered payroll	<u>766.1%</u>	<u>611.4%</u>	<u>577.9%</u>

Changes in benefit terms: There were no significant legislative changes in benefits for the periods presented.

The "Schedule of Changes in Net OPEB Liability and Related Ratios" presented above illustrates 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.

