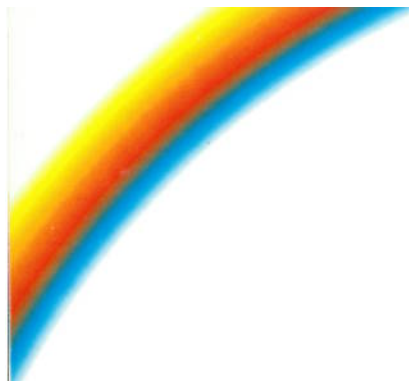




**NEW YORK STATE LOTTERY
ANNUAL REPORT
FISCAL YEAR 1990-91**



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LETTER FROM THE DIRECTOR



Fiscal year 1990-91 was both rewarding and challenging for the New York State Lottery. The rewards of last year include many Lottery firsts. For the first time, the New York Lottery conducted a \$90 million SUPER LOTTO jackpot; for the first time, we brought the drawings out of the studio to draw the winning numbers live before the public; and for the first time, the Lottery expanded its SCRATCH-OFF game menu to offer players six different and exciting games at once.

The year was a challenging one because, like all lotteries across the country, the New York Lottery felt the impact of the national recession. Coast to coast, lottery ticket sales slowed and did not meet projections. In New York, the impact of the weakened economy was demonstrated by a decline in LOTTO game sales.

Nevertheless, the New York Lottery performed favorably overall. In fiscal year 1990-91, we became the top revenue-producing lottery in the country and continued to be a national leader in lottery ticket sales. With total ticket sales of \$2.134 billion, the Lottery generated a record \$940 million for education in New York State. Despite dismal economic conditions, sales were up 3.7% and revenues were up 1.3% over the previous year.

Through ticket sales, Lottery sales agents—newsstands, neighborhood grocery stores, local liquor stores, and regional chain stores, for example—earned \$128.1 million in commissions in 1990-91. This marks the third consecutive year of commissions exceeding \$100 million going back to local businesses statewide, and helping to boost local economies.

Prize payments during fiscal year 1990-91 demonstrated that players across New York State continued to enjoy winning Lottery games. Players won more than \$1.124 billion in prizes, an \$85.0 million increase in prizes from the previous fiscal year. In 1990-91, there were 60.5 million winning tickets—the equivalent of five winning tickets for every New Yorker over the age of 18. And 63 new millionaires joined the Lottery's millionaires' club.

In one of the most exciting events of last year, the New York Lottery, for the first time since its inception, brought the nightly televised drawings out of the studio and conducted them live before the public at the 1990 State Fair in Syracuse. Hundreds of thousands of fair visitors had the opportunity to witness the actual drawings for LOTTO, PICK 10, NEW YORK'S NUMBERS, WIN 4, and CASH 40 as well as the intricate behind-the-scenes procedures that are followed to ensure the randomness of the ball selection and integrity of the entire draw process.

New marketing approaches, such as promotional give-aways and innovative ticket designs, helped to escalate SCRATCH-OFF ticket sales. In 1990-91, SCRATCH-OFF sales were up 29.3%. The new PICK 10 game was also a winner, bringing in twice the amount of ticket sales as the game it replaced.

And in January 1991, the Lottery held the largest jackpot drawing in New York State history, and the third largest jackpot in the nation at the time, with the \$90 million SUPER LOTTO jackpot. Earlier in the year, the State Legislature directed the Lottery to raise an additional \$30 million in revenue. Through SUPER LOTTO, the Lottery exceeded its goal and generated an additional \$33 million for education.

The New York State Lottery continues to be a very important revenue source for New York State's elementary and secondary schools. Since its inception in 1967, the Lottery has earned nearly \$7 billion for education. As the Lottery enters its 25th year, we reaffirm our commitment to raising money for local schools throughout New York State.

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Peter D. Lynch
Director

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FINANCIAL PERFORMANCE

The Lottery's Mission Is Earning Money For Education

In fiscal year 1990-91, the New York State Lottery surpassed the \$2 billion threshold for ticket sales for the second year in a row. Ticket sales were \$2.134 billion, a 3.7% increase, or \$76.5 million more than last year. While this sales increase was not as great as those in previous years, this is the 11th consecutive year of increased Lottery sales.

Sales of \$2.134 billion generated \$940.0 million for education, a 1.3% increase, or \$12.0 million more than last year. This aid represents approximately 45% of Lottery sales and makes the Lottery the fourth largest revenue source for New York State.

Lottery revenue is specifically used for education and is distributed to local school districts statewide.

The other major financial payout for the Lottery is prize payments to players. In fiscal 1990-91, players won more than \$1.124 billion, \$85.0 million more than the previous fiscal year. And there were 60.5 million winning tickets—the equivalent of five winning tickets for every New Yorker over the age of 18.

Sales Performance by Game

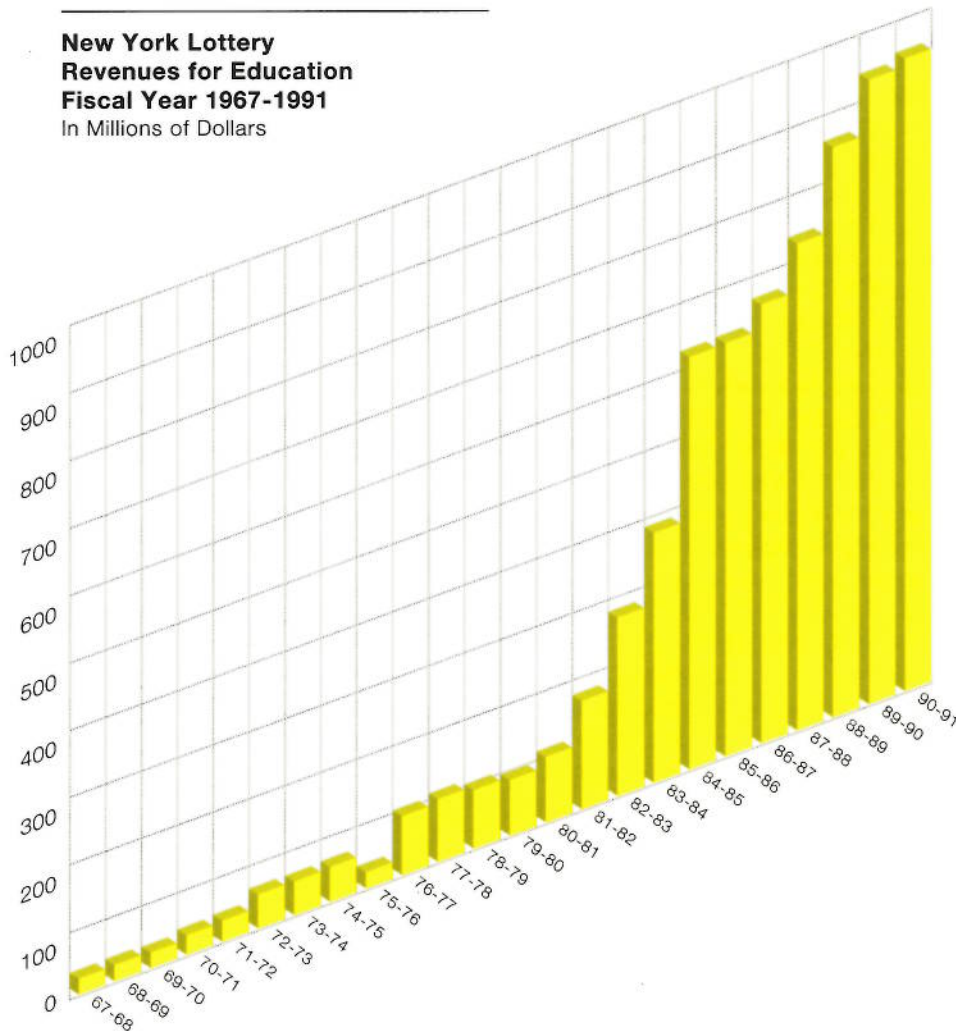
Lottery games are the revenue-generators that enable the Lottery to help fund elementary and secondary education in New York schools. A sales breakdown by game for fiscal year 1990-91 follows:

- SCRATCH-OFF sales jumped to \$262.0 million, a 29.3% increase, or \$59.4 million more than last fiscal year.
- PICK 10 sales nearly doubled to \$119.1 million, an 81.5% jump, or \$53.5 million more than last fiscal year.
- WIN 4 sales rose to \$286.7 million, an 11% increase, or \$28.3 million more than last fiscal year.
- NEW YORK'S NUMBERS sales grew to \$615.5 million, a 2.2% increase, or \$13.4 million over last fiscal year.
- LOTTO sales were \$851.3 million*, an 8.4% decrease from last fiscal year. Several factors contributed to this decline, including a weaker economy and increased prices for gas and other items, which left less discretionary income for entertainment, including LOTTO tickets.

*This figure includes sales for CASH 40.

New York Lottery Revenues for Education Fiscal Year 1967-1991

In Millions of Dollars



LOTTO remains, however, the Lottery's number-one selling game, representing 39.9% of total sales and contributing more than any other Lottery game to the support of education in New York State.

Lottery Aid for Education

The New York Lottery's revenues are distributed to school districts across the State. On November 8, 1966, New Yorkers voted overwhelmingly to permit a State lottery for the support of education. As Lottery sales grew, so did the New York Lottery's fiscal support for education.

In fiscal year 1990-91, the Lottery generated a record \$940.0 million for education, or 11.5% of the State's aid to local schools.

Over the years, the Lottery has increased its share of the State's local education aid budget. As a result, from the Lottery's beginning through the end of fiscal year 1990-91, nearly \$7 billion has been generated for education in New York State.

Where the Revenue Goes from Ticket Sales

On average, 45 cents of every dollar that buys a Lottery ticket goes to support New York's public schools. In fiscal year 1990-91, by individual game, 45% of all LOTTO, CASH 40, and PICK 10 sales and 35% of all NEW YORK'S NUMBERS, WIN 4 and SCRATCH-OFF sales went to support education in New York State.

In 1990-91, the Lottery provided about \$2.57 million every day to the State's local aid to education fund.

Last year, the Lottery earned

\$940 million for education.

From the Lottery's beginning,

nearly \$7 billion has been

generated for education in

New York State.




FINANCIAL PERFORMANCE

How Lottery Aid for Education Is Distributed and Used

Lottery revenues are distributed to 702 school districts in the 62 counties of New York State. The amount of aid to each is based on a formula developed by the State Legislature. This formula is applied by the State Education Department to make allocations to local school districts. The formula includes the following factors:

- Local school district pupil population
- Grade level of the pupils
- Special student needs
- Full value of property within the district



As part of the State's guidelines for distribution of Lottery aid, \$5 is allocated for each resident enrolled pupil for the purchase and loan of textbooks. This aid is in addition to the regular allocation of \$10 per student for textbooks. A \$10 payment for each blind and deaf student in State-supported schools is also included in the disbursement.

Once these allocations are made, the remainder of Lottery aid is distributed to local school districts. Each district has the authority to spend school aid as need requires. According to State Education Department officials, examples of how New York Lottery aid for education is used include: computer hardware, teachers' salaries, building maintenance, transportation, programs for attendance improvement and dropout prevention, and a variety of other school expenses.

Lottery Aid: Not "Extra" Money for Education

The Lottery earnings are part of the State's total aid package to local school districts and are not "extra."

Lottery aid is not an added "bonus" to what the State allocates for education, but is an integral part of the State's total education funding for New York schools.

Without the Lottery, State aid to the 702 school districts might be reduced, taxes might increase or other State programs might be curtailed or eliminated to make up the difference.

Operating Costs

In a review of operating costs, the New York Lottery continues to perform favorably. While State law allows up to 15% of yearly sales to be spent on operating costs, the Lottery spent only 11.3% of sales, or \$240.2 million, in fiscal year 1990-91, clearly demonstrating the Lottery's commitment to efficiency.

The difference of 3.7%, or \$79.9 million, was delivered to the State for education funding, a testimony to the Lottery's dedication to productivity and bottom-line results.

Lottery operating costs include substantial payments for sales agent commissions, contractor fees such as those needed for maintaining the on-line game system and printing and distribution of SCRATCH-OFF game tickets, and internal administrative costs. Sales agent commissions, 6% of sales, totaled \$128.1 million. Contractor fees accounted for 2.7% of sales, or \$57.1 million. Lottery internal administrative costs were 2.6% of sales, or \$55.0 million.

These administrative costs included expenses for advertising of \$13.7 million, salaries and benefits of \$9.7 million, and telecommunications costs for maintaining on-line computer systems of \$21.5 million. Other administrative costs included supplies, equipment, travel and expenses associated with the daily needs of operating the Lottery.

Financial Management

The Lottery employs sophisticated and conservative investment strategies to offer players the most attractive jackpots possible.

LOTTO jackpots are paid as annuities to winners in 21 installments over a 20-year-period. Sales projections and up-to-date investment interest rates determine the size of each LOTTO jackpot. The jackpot amount includes the principal from the sales for the drawing and the interest earned over the 20-year investment period. LOTTO jackpot winners receive both the principal and interest in their winnings.

To ensure that LOTTO jackpot payments are paid, financial managers invest the funds for LOTTO winners' 20-year annuities in Federal government securities, the safest instruments available. On March 31, 1991, the market value of these investments was more than \$1.11 billion.

The Lottery is legally required to withhold Federal, State and local income taxes from prizes greater than \$5,000; 20% is withheld for Federal tax and 7.875% for State tax.

NEW YORK LOTTERY AID TO EDUCATION BY COUNTY IN FISCAL YEAR 1990-91

Albany	\$ 12,736,118.71
Allegany	5,496,235.52
Broome	14,977,210.69
Cattaraugus	10,017,758.23
Cayuga.....	7,064,736.52
Chautauqua.....	13,366,227.41
Chemung.....	8,033,949.90
Chenango.....	6,210,366.21
Clinton	8,026,920.69
Columbia.....	4,032,488.33
Cortland	4,724,399.53
Delaware	4,010,318.04
Dutchess	14,260,102.18
Erie	65,787,954.92
Essex	1,812,137.87
Franklin	4,869,701.16
Fulton.....	5,645,970.59
Genesee.....	5,847,108.88
Greene	2,537,281.22
Hamilton.....	35,185.54
Herkimer	6,971,794.27
Jefferson	10,483,367.68
Lewis	3,165,409.34
Livingston.....	5,403,877.38
Madison	6,760,672.64
Monroe	41,836,529.97
Montgomery	4,738,963.85
Nassau.....	33,207,551.76
New York City*	365,915,224.08
Niagara	17,758,068.04
Oneida	20,435,742.46
Onondaga	35,028,141.30
Ontario	7,935,861.24
Orange	25,270,839.87
Orleans	4,845,297.85
Oswego.....	12,146,088.55
Otsego	5,035,538.74
Putnam	4,262,722.41
Rensselaer.....	12,282,757.55
Rockland	9,987,895.47
Saratoga	16,211,161.86
Schenectady.....	8,927,952.32
Schoharie	3,074,028.75
Schuyler	1,557,632.12
Seneca.....	2,797,842.28
St. Lawrence	11,488,197.78
Steuben	11,342,160.90
Suffolk.....	88,239,632.76
Sullivan	3,807,717.86
Tioga.....	5,824,816.66
Tompkins	5,660,584.37
Ulster	9,039,574.34
Warren	4,288,623.26
Washington	6,496,715.57
Wayne.....	9,600,244.01
Westchester	13,955,543.80
Wyoming	3,516,940.65
Yates	1,182,131.89

*Includes boroughs of Manhattan, Brooklyn, Bronx, Queens and Staten Island.

A YEAR OF FIRSTS

An Exciting Year



During fiscal year 1990-91, the New York State Lottery celebrated two special events that will be remembered as "firsts" in its 24-year history.

Super Lotto

The New York Lottery kicked off the new year with a LOTTO mega-jackpot drawing held in January 1991. The year before, in May 1990, the Legislature directed the Lottery to use prize reserves to raise an additional \$30 million in revenue for education. The Lottery responded by creating a SUPER LOTTO drawing. The jackpot, fueled by prize reserves, started at \$50 million and grew to \$90 million from ticket sales, making SUPER LOTTO the biggest jackpot drawing offered in New York State history. A special launch event, which brought together past millionaire winners, plus an exciting advertising campaign, ignited the spark that fueled SUPER LOTTO fun for players across the State.

At the time of the SUPER LOTTO drawing, the \$90 million jackpot was the third largest jackpot in U.S. lottery history. During an intense 10-day sales period, millions of players bought a total of \$61.158 million in tickets. While LOTTO mega-jackpots

tend to excite players and prompt high sales, SUPER LOTTO sales were somewhat hampered by the Persian Gulf crisis that erupted the day before SUPER LOTTO sales began. Still, after all prizes, agent commissions and other costs were paid, the New York Lottery exceeded its goal and raised an additional \$33 million for education.

Importantly, SUPER LOTTO was a hit with players, too. There were nine winning tickets equally dividing the \$90 million jackpot, each worth \$10 million. And nearly 200,000 winning tickets paid second-, third- and fourth-place SUPER LOTTO prizes. There were 1,894 second-prize winners of \$1,349.50 each; 93,901 third-prize winners of \$69.00; and 103,141 fourth-prize winners of \$24.50.

Lottery Drawings "On the Road"

For the first time, the New York State Lottery took its televised game drawings "on the road" to conduct them live in public at the New York State Fair in Syracuse in August 1990. Why? The Lottery wanted to show the people of New York the live drawings and the behind-the-scenes procedures that guarantee the randomness of ball selection and



the integrity of the entire drawing process.

At the fair, hundreds of thousands of visitors were able to see firsthand the actual drawings and witness how Lottery professionals conduct the dozens of checks for randomness at every Lottery drawing. The Lottery team—a Lottery official, an independent auditor, five Lottery draw personnel and a television crew—worked for a 10-day period, demonstrating to fair goers the meticulous process and exacting procedures that must be followed to select winning numbers for LOTTO, PICK 10, CASH 40, NEW YORK'S NUMBERS and WIN 4.



LOTTERY FACTS OF INTEREST

- **Cumulatively, the New York Lottery has generated more than \$15 billion in sales, more than any other state lottery.**
- **In fiscal year 1990-91, the New York Lottery surpassed other state lotteries as the leading revenue-producing lottery in the country.**
- **The Lottery provides about \$2.57 million every day to support local schools in New York State.**
- **Total sales have produced nearly \$7 billion in revenue for New York State's aid to local schools.**
- **\$8 billion in total prizes has been won by Lottery players since the New York Lottery was created.**
- **The 1991 SUPER LOTTO \$90 million jackpot was the largest drawing in New York State history.**
- **More than 700 people have won \$1 million or more.**
- **The largest single LOTTO prize ever won was \$35 million by Antonio Bueti in 1990.**
- **1,245 live drawings are conducted a year — 24 live drawings every week.**
- **4,980 test drawings a year verify the randomness and integrity of the drawing process.**
- **In total, the games produce \$93.7 million worth of winning tickets each month — more than \$21.6 million each week.**
- **Prizes up to \$500,000 can be paid to winners with no waiting at regional offices around the State.**



PLAYING THE LOTTERY

It's All In The Games

Playing Lottery games is fun. The New York Lottery has a variety of games that offer different methods of play, ranges of jackpot prizes, daily and weekly drawings, and convenience aspects that make playing the games easy and exciting entertainment.

New Yorkers who prefer to win instantly play **SCRATCH-OFF** games. Fiscal 1990-91 was the first full year in which a new SCRATCH-OFF game was introduced every seven weeks, providing a menu of six different games at any one time. Players can rub off winning graphic combinations and win from \$1 to \$10,000 depending on the game.

Seven new SCRATCH-OFF games were introduced this fiscal year, including "KING'S CASH," featuring a picture of John Goodman, star of "King Ralph" and popular TV husband of "Roseanne." SCRATCH-OFF players had a ball with "HOOPS." Those who purchased five "HOOPS" tickets at once received a free autographed poster of New York Knicks basketball star Patrick Ewing. Another fun SCRATCH-OFF game was "TREASURE QUEST," which offered players a prize drawing to encourage sales. By mailing four nonwinning "TREASURE QUEST" tickets, players were eligible to win cars, home entertainment centers, as well as other prizes. "LUCKY 7s," a tic-tac-toe theme game, was also popular with players and returned excellent sales.

New Yorkers' favorite Lottery game continues to be **LOTTO**, the big jackpot game where players select six numbers from a field of 54. To win the jackpot, players must match all six numbers randomly drawn.

In fiscal year 1990-91, LOTTO players learned they could double their fun. The Lottery introduced an advanced play feature called **LOTTO DOUBLEHEADER** that allows LOTTO players to buy tickets for the next two drawings.

LOTTO players also have the convenience of playing by mail, individually or in groups, with subscriptions of up to one year that automatically enter subscribers' numbers in each drawing. More players are enjoying this convenience as subscription sales grew to \$18.6 million in fiscal year 1990-91 from \$18.2 million in 1989-90. As of March 31, 1991, 20 millionaires won their jackpots by subscription.

PICK 10, which made its debut on April 1, 1990, is the newest computerized Lottery game. Every day players can choose 10 numbers from a field of 80. Each night, the Lottery draws 20 numbers. Prizes are awarded for matching 10, 9, 8, 7, 6 and even zero of the numbers drawn. Players matching all 10 numbers win a top prize of \$500,000, paid in one lump sum. If there are more than 10 jackpot winners for one drawing, the total jackpot prize pool of \$5 million is divided equally among all jackpot winners.

PICK 10 was introduced with the help of baseball Hall of Famer Whitey Ford, a veteran New York Yankees





pitcher, who made personal appearances in Buffalo, Syracuse, Rochester, Binghamton and Albany to generate awareness and excitement for PICK 10.

Those who enjoy selecting different odds and look forward to a live drawing every night of the week choose **NEW YORK'S NUMBERS**, where three-digit numbers are randomly drawn, and **WIN 4**, where four-digit numbers are randomly drawn. Each game creates thousands of winners every week.

NEW YORK'S NUMBERS and WIN 4 players enjoy the Lottery's popular Bonus Weeks when prize payouts are increased at every level by at least 20% for an entire week. Record NEW YORK'S NUMBERS sales of \$12,933,108.50 took place during this fiscal year's first Bonus Week in May 1990.

Players who prefer their winnings in one lump sum play **CASH 40**. With drawings held on Monday nights, New Yorkers select six numbers from a field of 40 to win jackpots starting at \$100,000.

CASH 40 had a record \$900,000 jackpot on October 22, 1990. There were four winning tickets sold with a perfect six-number match for this drawing. That's nearly a quarter of a million dollars—in cash—for each lucky winner!

Even if you're in a hurry, it's easy to play all computerized Lottery games. **QUICK PICK** provides the convenience of letting the computer randomly select game numbers in a few seconds.

COMPUTERIZATION OF GAMES

Five Lottery games—**LOTTO**, **PICK 10**, **NEW YORK'S NUMBERS**, **WIN 4** and **CASH 40**—are run on the Lottery's on-line computer system. This system routinely processes more than 40 million transactions a week.

From 7,100 on-line terminals at sales locations all over the State, the Lottery's system collects players' numbers, totals tickets sold, calculates prize levels and number of winners and provides this data to Lottery staff—hours after the drawings.



LOTTERY WINNERS

Found In Every Corner Of New York State

Prizes worth more than \$1.124 billion were awarded on 60.5 million winning tickets in fiscal year 1990-91. Lottery players won \$85.0 million more in fiscal 1990-91 than in the previous year. Sixty-three new winners were added to the Lottery millionaires' club in fiscal 1990-91. Since 1967, the New York Lottery has created 763 millionaires.

A variety of winners from last year literally shared the fun of winning with their friends and colleagues as group winners. By pooling resources or playing LOTTO with a group subscription, many players won in groups. Last year, 58 winners of SUPER LOTTO were members of groups.

Super Lotto's "K-39"

Among SUPER LOTTO group winners last year were 39 teachers from Kilpatrick Elementary School in Paterson, New Jersey, who shared one of the \$90 million SUPER LOTTO winning tickets valued at \$10 million. The teachers, who dubbed themselves "K-39," journeyed aboard a school bus to Suffern, New York to collect the first installment of their winnings at a special check-present-



ing ceremony conducted at the pharmacy where the winning ticket was bought. Some wore new fur coats, some waved school pennants, but all cheered happily for their SUPER LOTTO winnings—the teachers' new pet.

St. Patrick's Day Dollars

Irish eyes were smilin' on Alden carpenter Joseph H. Cotton and his wife Deanna, a school teacher, when they won \$33,317,317 on 3/17—St. Patrick's Day, of course! The Cottons now hold the record for winning the second largest LOTTO jackpot with a single ticket. They discovered they were winners after church on Sunday while checking the newspaper for Saturday's winning LOTTO numbers.

A Winning "Sample"

When Franklin Steven Sample of Cortland played LOTTO for the first time in six years he won \$17.5 million—which, at the time, was the largest prize ever won with a ticket purchased in upstate New York. Mr. Sample was the lucky holder of one



of the two winning tickets for the \$35 million LOTTO drawing on April 11. Upon hearing the good news, Mr. Sample, a Jamestown native, was in the process of relocating his family back to New York State from North Carolina. How would he like to “sample” his winnings? “I’d just like to go fishing for a while,” he replied.

Happy to Do “These” Numbers

As an accountant, Dennis Carmen receives calls all the time that require number “crunching.” But when the Lottery called to inform him that he was a \$3 million winner, Mr. Carmen didn’t think of it as work as he calculated his payments. A resident of Melville, Long Island, Mr. Carmen became a LOTTO millionaire by subscription. What will these new numbers bring to Mr. Carmen, his wife and their two young children? The CPA is already “computing” his plans for a summer house in the Hamptons, a series of investments and financing toward his sons’ college educations.



HOW THE WINNERS ARE DRAWN

The Lottery’s nightly televised drawings are an opportunity to see the heart of the Lottery at work. Seven nights a week, every day of the year—except Christmas—the team of drawing professionals works meticulously under highly defined regulations. To ensure both security and integrity, the team includes an independent auditor from the accounting firm of Coopers & Lybrand.

The drawings begin once word is received from Lottery headquarters that the game sales are closed.

Following exacting procedures, the team conducts three pretests and one posttest drawing to ensure the randomness of ball selection. The drawing machines, designed especially for the New York Lottery, are the model used by many other lotteries worldwide because of a security-enhanced design that uses electronically controlled gates to randomly select the balls.

LOTTERY IN THE COMMUNITY

Sales And Promotions

From Niagara Falls... to the tip of Manhattan... to the seat of State government in Albany, the New York Lottery is part of New York life. Whether it's the corner store where tickets are sold or a booth at a local county fair, the Lottery is an integral part of communities across the State.

Sales Agents — Bringing Games to Your Neighborhood

They're everywhere.

Newsstands. Candy stores. Card stores. Liquor stores. Grocery and convenience stores. And some can be found at gas stations and home improvement centers, too.

"They" are the nearly 12,000 Lottery sales agents across New York State. In 1990-91, the Lottery added 1,600 to the agent team to sell tickets to Lottery-playing New Yorkers. From the proprietors of the mom-and-pop shops that have been in the neighborhood for a generation to the new entrepreneurs who are building a business, Lottery sales agents are important members of each business community they serve.

As agents are the Lottery's critical link to players, the Lottery makes sure to provide them with the best sales support possible. Lottery district sales representatives continue to strengthen the Lottery's agent-support efforts.

In addition, the Lottery expanded its sales agent network in 1990-91 by

adding several retail chain accounts. This now enables players to purchase Lottery tickets at some of their favorite stores, including Wegman's, a Rochester and Buffalo area grocery chain; Dairy Mart, located throughout Rockland, Putnam and Orange counties; Price Chopper, a northeastern New York grocery chain store, and Finast, a supermarket chain in Westchester and Long Island. These and other chain store agents are an important addition to the Lottery sales network.

Lottery Promotions — Fun for New York Communities

Lottery promotions are everywhere, making their mark on each business community across New York. As part of its community involvement, in fiscal 1990-91 the Lottery made some local residents celebrities by featuring real people with real dreams as part of the advertising campaign for LOTTO.

In February 1991, the Lottery introduced a series of print and television advertisements using real LOTTO players who shared their dreams about what they would do if they won a LOTTO jackpot. Participants were winners of a contest in which 53,000 people submitted their dreams to be part of the "All You Need Is a Dollar and a Dream" advertising campaign.

Residents from Buffalo, Rochester, Brooklyn, New Rochelle and elsewhere around the State shared their LOTTO wishes, portraying the dream of many LOTTO players, such as, "I'd wake up with the world in my hands instead of on my shoulders."

The "All You Need Is a Dollar and a Dream" contest and advertising campaign are just two examples of the Lottery reaching out to New York communities. The Lottery continually conducts local promotions throughout the State. These range from prize give-aways at community fairs to



cross-promotions with fast-food restaurants to media-hosted contests. For example, in fiscal 1990-91, the Lottery conducted the first Lottery/New York Post "Second Chance" promotion in which players were given one more chance at winning cash by matching nonwinning LOTTO numbers with those in the newspaper.

Through promotional activities, the Lottery has always been an avid supporter of sports. It regularly conducts promotions with such popular franchises as the Yankees, the Buffalo Sabres, the New York Islanders, the Knicks, the Syracuse Orangemen, the American Hockey League and other local sports franchises.

Through promotions with sports entities the Lottery brings contests, give-aways, fun and enjoyment to fans and Lottery players alike.

As a concerned citizen of New York State, the Lottery engages in many philanthropic promotions all over New York. In 1990-91, for example, the Lottery helped raise funds for the Children's Miracle Network Telethon, a national organization that fundraises for children's hospitals, by donating SCRATCH-OFF tickets to those who pledged money for this cause. The Lottery's work for the Children's Miracle Network helped raise funds for children's hospitals all across the State and in the five boroughs of New York City.

And, in all marketing and sales activities, the Lottery takes a concerned and responsible approach by encouraging moderation among Lottery players. In fiscal year 1990-91, the Lottery began to offer the toll-free phone number and address of the National Council on Problem Gambling on play cards for LOTTO, PICK 10 and CASH 40 games. Lottery game brochures also caution players to "Follow Your Dreams Within Your Means."

LOTTERY SALES AGENTS

Lottery sales contribute to making New York State more economically viable. New York Lottery sales agents earn 6% of their ticket sales in commissions. During fiscal year 1990-91, sales agents earned \$128.1 million in commissions, a 3.7% increase or \$4.6 million more than last year. For the third year in a row, agent commissions exceeded \$100 million. These commissions, in turn, help keep local businesses thriving to the benefit of their communities.





REPORT OF INDEPENDENT ACCOUNTANTS

Coopers
& Lybrand

certified public accountants

New York State Lottery

We have audited the accompanying statements of assets and liabilities of the New York State Lottery as of March 31, 1991 and 1990, and the related statements of revenues and expenses and cash flows for the years then ended. These financial statements are the responsibility of the management of the New York State Lottery. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and liabilities of the New York State Lottery as of March 31, 1991 and 1990, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Coopers & Lybrand

Albany, New York
May 31, 1991

NEW YORK STATE LOTTERY

STATEMENTS OF ASSETS AND LIABILITIES

March 31, 1991 and 1990 (In Thousands)

	1991	1990
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 104,781	\$ 105,377
Accounts receivable	35,797	28,495
Investments, at amortized cost	119,047	99,911
Total current assets	259,625	233,783
Long-term investments, at amortized cost	924,592	782,771
Equipment, principally capital leases, net of accumulated depreciation and amortization	4,597	
Total assets	\$1,188,814	\$1,016,554
LIABILITIES		
Current liabilities:		
Prizes payable	\$ 117,111	\$ 99,769
Unclaimed and future prizes	96,958	123,333
Due to education	8,137	(9,430)
Due to administration	4,622	8,558
Other payables	21,997	4,045
Total current liabilities	248,825	226,275
Long-term prizes payable	939,989	790,279
Commitments and contingencies (Note 10)		
Total liabilities	\$1,188,814	\$1,016,554

NEW YORK STATE LOTTERY

STATEMENTS OF REVENUES AND EXPENSES

For the Years Ended March 31, 1991 and 1990 (In Thousands)

	1991	1990
Ticket sales	\$2,134,644	\$2,058,139
Less:		
Prizes	(949,816)	(909,341)
Agent commissions	(128,104)	(123,488)
Contractor fees	(57,122)	(50,393)
Gross profit on ticket sales	999,602	974,917
General and administrative expenses	55,044	63,637
Income from operations	944,558	911,280
Nonoperating revenues (expenses):		
Interest income	105,924	84,305
Interest expense-amortization of discount on prizes payable	(94,648)	(70,197)
Other, net	1,744	1,721
Total nonoperating revenues (expenses)	13,020	15,829
Income earned and required allocation to education	\$ 957,578	\$ 927,109

The accompanying notes are an integral part of the financial statements.

NEW YORK STATE LOTTERY

STATEMENTS OF CASH FLOWS

For the Years Ended March 31, 1991 and 1990

Increase (Decrease) in Cash and Cash Equivalents (In Thousands)

	1991	1990
Cash flows from operating activities:		
Cash received from ticket sales	\$2,113,851	\$2,043,911
Cash payments for prizes	(893,236)	(829,070)
Cash payments for commissions and fees	(182,091)	(171,600)
Cash payments for general and administrative expenses	(58,763)	(72,962)
Net cash provided by operating activities	979,761	970,279
Cash flows from noncapital financing activities:		
Cash transfer to education	(940,011)	(927,986)
Cash flows from investing activities:		
Proceeds from investment maturities	106,675	90,894
Proceeds from sale of investments	2,160	4,598
Purchases of investments	(162,418)	(158,400)
Interest on cash and cash equivalents	11,449	14,086
Other cash payments and receipts, net	1,788	(325)
Net cash used in investing activities	(40,346)	(49,147)
Net decrease in cash and cash equivalents	(596)	(6,854)
Cash and cash equivalents, beginning of year	105,377	112,231
Cash and cash equivalents, end of year	\$ 104,781	\$ 105,377
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ 944,558	\$ 911,280
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization	217	
Changes in assets and liabilities affecting income from operations:		
Accounts receivable	(7,341)	(11,012)
Prizes payable	72,404	57,561
Unclaimed and future prizes	(26,375)	21,516
Due to administration	(3,936)	(9,325)
Other payables	234	259
Net cash provided by operating activities	\$ 979,761	\$ 970,279

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The New York State Lottery (the "Lottery") was established in 1967. The Lottery is currently administered by the Division of the Lottery, an independent unit of the Department of Taxation and Finance, which was created in 1976 and operates in accordance with the provisions of the New York State Lottery for Education Law (Tax Law Article 34). The purpose of the Lottery is to raise revenue for education in the State of New York ("State") through the administration of Lottery games.

The Lottery is included within the financial reporting entity of the State of New York. Within the General Purpose Financial Statements of the State of New York, the Lottery is accounted for within two funds. The revenues and expenditures for administration, aid to education and prizes are reported in a Special Revenue Fund. Monies for prizes are transferred to a Lottery Agency Fund for payment of prizes as claims are filed. The accompanying financial statements include the accounts of both funds and are presented as an enterprise fund. The accounting policies of the Lottery conform in all material respects to generally accepted accounting principles whereby revenue is recognized when earned and expenses are recognized when incurred.

Revenue Recognition — Revenue from completed Instant Games is reported based on the dollar value of Lottery ticket sales. Ticket sales are determined based on the total number tickets available for sale for each game less unsold tickets at the conclusion of each game.

Revenue from Instant Games in progress is reported based on the dollar value of the total number of tickets available for sale for each game less ticket inventories on hand at the Instant Game ticket contractor.

Revenue from Lotto, Cash 40, Daily Numbers, Pick 10, Keno and Win Four games is reported at the dollar value of all tickets sold. Revenue from ticket sales includes subscription sales and other ticket sales for future drawings of approximately \$8,952,000 and \$8,913,000 for fiscal years 1991 and 1990, respectively.

On April 1, 1990, the Lottery replaced Keno with Pick 10, a game with similar features.

Commissions and Fees — Agents receive a commission of six percent based on the total tickets sold. Contractors receive a fee equal to a contractual percentage of the revenues generated through the respective network maintained by each contractor (see Note 10).

Allocation of Revenue from Ticket Sales — The allocation of ticket sales is made in accordance with the provisions of the New York State Lottery for Education Law which requires:

- allocations of ticket sales revenue to New York State for educational purposes to be at least 35 percent for the Daily Numbers, Win Four and Instant Games and 45 percent for Lotto, Cash 40, Pick 10 and Keno.

- allocations of ticket sales revenue for the payment of Lottery prizes not to exceed 50 percent for the Daily Numbers, Win Four and Instant Games and 40 percent for Lotto, Cash 40, Pick 10 and Keno.

- allocations of ticket sales revenue from all games for the payment of Lottery administration expenses (including agent commissions and contractors' fees) not to exceed 15 percent.

Any excess of the maximum allocation over administration expenses is allocated to education. Such allocations amounted to approximately \$84,971,000 and \$75,297,000 for fiscal years 1991 and 1990, respectively. Administration expenses incurred by the Lottery represent the cost of developing and printing Lottery tickets, advertising, salary and other operating costs and include an accrual for expenses to be paid after the fiscal year-end.

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

Investments — Investments, consisting of U.S. Government-backed obligations (zero coupon bonds and stripped Government securities), are carried at amortized cost. The periodic amortization of discount is recorded as interest income in these financial statements.

Equipment — Equipment is recorded at cost and is depreciated using the straight line method over five years, the estimated useful life of the assets.

Equipment acquired under capital leases are amortized using the straight line method over five years, which is the lesser of the useful life of the asset or the term of the lease.

Prizes Payable — Prizes payable represents the liability for those prizes which are payable in annual installments. Such prize payments are funded by the Lottery's investment in U.S. Government-backed securities. The periodic amortization of discount is recorded as interest expense in these financial statements. Any excess of investment maturities over prize payments is made available for prizes.

Unclaimed and Future Prizes — Prizes unclaimed for one year after the drawing date are forfeited by the ticket holders and are allocated to education. Such allocations amounted to approximately \$28,663,000 and \$31,896,000 for fiscal years 1991 and 1990, respectively.

Legislation passed during fiscal year 1990 requires the Lottery to transfer unclaimed prizes to education six months after a drawing in anticipation of a possible forfeiture. Such transfer is in addition to the allocation to education and amounted to \$14,843,000 and \$14,852,000 for fiscal years 1991 and 1990, respectively. Funds for prizes claimed and paid between six and twelve months after a drawing are reimbursed by reducing subsequent transfers to the education account. All prizes can still be claimed for twelve months after a drawing.

Future prizes represent the difference between the statutory allocation to prizes and the amount allocated to the winning pools of Lottery games. Such amounts are disbursed, as determined by management, for the sole benefit of Lottery game winners.

Statements of Cash Flows — In September 1989, the Governmental Accounting Standards Board issued Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting." The provisions of this statement are effective for fiscal years ending

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

after December 15, 1990. Accordingly, the Lottery has adopted the provisions of Statement No. 9 in its 1991 financial statements and restated the previously reported statement of changes in assets and liabilities for 1990.

Reclassifications — Certain 1990 amounts have been reclassified to conform to the 1991 presentation.

2. CASH AND CASH EQUIVALENTS

Lottery deposits and investments are made in accordance with New York State statutes.

Lottery sales receipts are allocated and deposited in investment fund accounts for prizes, education and administration under the joint custody of the Lottery and the Office of the State Comptroller of the State of New York. The accounts for prizes and administration earn interest through participation in a short-term investment pool administered by the State Comptroller. The carrying and market value of the accounts included in cash and cash equivalents were \$92,200,000 and \$107,145,000 at March 31, 1991 and 1990, respectively. Interest income earned in each investment account is used for the specific purpose and benefit of that account.

The Lottery also maintains sole custody accounts which are used for daily cash management purposes. Amounts of cash balances (book overdraft) included in cash and cash equivalents related to sole custody accounts were \$12,581,000 and (\$1,768,000) for fiscal years 1991 and 1990, respectively.

The Lottery's deposits are collateralized under a program administered by the Office of the State Comptroller of the State of New York. The State requires that its depository banks pledge collateral based on available bank balances. All securities pledged as collateral are held by the State's fiscal agent in the name of the State. The Lottery's deposits with financial institutions were fully collateralized at fiscal year-end. The State uses average daily available balances adjusted for experience to determine collateral requirements. This method could result in the available balances being undercollateralized at certain times during the fiscal year.

3. INVESTMENTS

The Lottery is authorized to invest in U.S. Government-backed obligations (zero coupon bonds and stripped Government securities), which will provide for the payment of prizes payable (see Note 5). During fiscal years 1991 and 1990, approximately \$94,923,000 and \$70,456,000, respectively, of amortized discount was included in interest income.

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

	1991	1990
Maturity value	\$2,043,222	\$1,779,896
Less unamortized discount	999,583	897,214
Total carrying value	1,043,639	882,682
Less: investments, maturing		
within one year	119,047	99,911
Long-term investments	\$ 924,592	\$ 782,771
Total market value	\$1,115,751	\$ 926,943

Maturities of the investments in each of the five fiscal years following March 31, 1991, and the total thereafter, are as follows (in thousands):

1992	\$ 123,890
1993	122,921
1994	122,438
1995	123,186
1996	123,190
1997 and thereafter	1,427,597
	<u>\$2,043,222</u>

The Lottery's investments are categorized to give an indication of the level of risk assumed by the Lottery at year-end. All of the Lottery's investments are included in category "A", the lowest risk, as defined by the Governmental Accounting Standards Board to include investments that are "insured or registered or securities held by the Lottery or its agent in the Lottery's name."

Disclosures relating to risk and type of investments as presented above are indicative of activity and positions held during the year.

4. EQUIPMENT

Equipment as of March 31, 1991 and 1990 is as follows:

	1991	1990
Equipment	\$4,914,495	\$ 100,000
Less accumulated depreciation		
and amortization	317,200	100,000
Equipment, net	<u>\$4,597,295</u>	<u>\$ 0</u>

During fiscal 1991, the Lottery entered into a \$4,700,000 capital lease for new computer equipment. The lease is for a five-year term and requires ten semiannual payments approximating \$573,000 each, through March 1996.

Accumulated amortization for the equipment recorded under this capital lease approximated \$217,000 at March 31, 1991.

5. PRIZES PAYABLE

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

	1991	1990
Total obligation	\$2,052,572	\$1,783,194
Less unamortized discount	995,472	893,146
Total carrying amount	\$1,057,100	\$ 890,048
Less: prizes payable within one year	117,111	99,769
Long-term prizes payable	<u>\$ 939,989</u>	<u>\$ 790,279</u>

The amortized discount on the prizes payable is based on interest rates which range from 6.37 percent to 13.55 percent and reflect the interest rates earned by the investments held to fund the related liabilities. The amortization of discount is recorded as interest expense in the statements of revenues and expenses and amounted to \$94,648,000 and \$70,197,000 for the fiscal years 1991 and 1990, respectively.

The aggregate amount of prizes payable due in each of the five fiscal years following March 31, 1991, and the total thereafter, is as follows (in thousands):

1992	\$ 123,046
1993	123,046
1994	122,946
1995	122,836
1996	122,836
1997 and thereafter	1,437,862
	\$ 2,052,572

6. OPERATING SEGMENT INFORMATION

Operating segment information for fiscal 1991 and 1990 by type of Lottery game is as follows (in thousands):

	1991				
	Lotto and Cash 40	Pick 10	Daily Numbers and Win Four	Instant Games	Total
Ticket sales	\$ 851,328	\$ 119,065	\$ 902,290	\$ 261,961	\$ 2,134,644
Prizes	(324,184)	(45,964)	(447,845)	(131,823)	(949,816)
Commissions and fees	(65,917)	(9,403)	(70,874)	(39,032)	(185,226)
Interest and other income, net	99,977	713	5,415	1,563	107,668
Interest expense	(94,648)				(94,648)
General and administrative expenses	(25,297)	(3,416)	(25,992)	(339)	(55,044)
Income earned and required allocation to education	\$ 441,259	\$ 60,995	\$ 362,994	\$ 92,330	\$ 957,578

	1990				
	Lotto and Cash 40	Keno	Daily Numbers and Win Four	Instant Games	Total
Ticket sales	\$ 929,493	\$ 65,591	\$ 860,563	\$ 202,492	\$ 2,058,139
Prizes	(353,356)	(24,308)	(429,308)	(102,369)	(909,341)
Commissions and fees	(71,593)	(5,101)	(66,903)	(30,284)	(173,881)
Interest and other income, net	77,488	496	6,510	1,532	86,026
Interest expense	(70,197)				(70,197)
General and administrative expenses	(31,916)	(2,229)	(29,266)	(226)	(63,637)
Income earned and required allocation to education	\$ 479,919	\$ 34,449	\$ 341,596	\$ 71,145	\$ 927,109

General and administrative expenses are allocated to each game based on the relationship of the revenue allocated to administration, net of commissions and fees of each game to the total of all games.

7. EDUCATION

Income earned and required allocation to education during the fiscal years ended March 31, 1991 and 1990 are as follows:

	1991	1990
Revenue transferred to education	\$ 940,011	\$ 927,986
Prior year overtransfer	9,430	8,752
Other adjustments		(199)
Amount transferred from current year revenue	949,441	936,539
Current year payable (overtransfer)	8,137	(9,430)
Income earned and required allocation to education	\$ 957,578	\$ 927,109

8. DEFINED BENEFIT PENSION PLAN

Substantially all Lottery employees participate in the New York State Employees' Retirement System ("the System"), a cost-sharing multiple-employer public employee retirement system. The payroll for Lottery employees covered by the system for the year ended March 31, 1991 was approximately \$7,382,000; the Lottery's total payroll was \$7,536,000.

The System provides retirement benefits as well as death and disability benefits. All benefits vest after 10 years of credited service. Retirement benefits that employees are entitled to are established by New York State law and are dependent upon the point in time at which the employee last joined the System. These retirement plans have both contributory and noncontributory requirements depending upon the point at which an employee last joined the System. Most members of the System who joined before July 27, 1976 are enrolled in a noncontributory plan and may retire at age 55. Employees who

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

last joined the System on or after July 27, 1976 are enrolled in a contributory plan which requires a 3% contribution of their salary and may retire at age 62. A public employee who joined the System on or after July 27, 1976 and leaves covered employment before 10 years of credited service may obtain a refund including interest of the accumulated employee contributions. Members, benefits, and employer and employee obligations to contribute are described in the New York State Retirement and Social Security Law. The number of members and benefit recipients of the System as of March 31, 1990 (1991 plan data is not available) totaled approximately 829,000, including 245,000 retirees and beneficiaries currently receiving benefits and no longer working members entitled to benefits but not yet receiving them; 80,000 nonvested inactive members, and 504,000 current working members.

The contribution requirement for the year ended March 31, 1991 was \$640,839, which consisted of \$503,408 from the Lottery and \$137,431 from employees; these contributions represented 6.8% and 1.9% of covered payroll, respectively.

The contribution requirement for the year ended March 31, 1990 was \$500,276, which consisted of \$394,187 from the Lottery and \$106,089 from employees; these contributions represented 6.4% and 1.7% of covered payroll, respectively.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems and employers. The System does not make separate measurements of assets and pension benefit obligation for individual employers. The pension benefit obligation at March 31, 1990 for the System as a whole, determined through an actuarial valuation performed as of that date, was \$36,974,000,000. The System's net assets available for benefits on that date (valued at market) were \$40,078,000,000 resulting in assets in excess of pension benefit obligation of \$3,104,000,000. The Lottery's 1990 contribution represented .07 percent of total contributions required of all participating entities.

Ten-year historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's March 31, 1990 annual financial report.

9. DEFERRED COMPENSATION

New York State offers its employees, including Lottery employees, a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are

(until paid or made available to the employee or other beneficiary) solely the property and rights of the State (without being restricted to the provisions of benefits under the plan), subject only to the claims of the State's general creditors. Participants' rights under the plan are equal to those of general creditors of the State in an amount equal to the fair market value of the deferred account for each participant. The assets and liabilities related to this plan are recorded in the State's financial statements.

10. COMMITMENTS AND CONTINGENCIES

Contractual Arrangements — The New York State Lottery maintains two parallel on-line gaming networks, each comprised of several thousand agent terminals. The Lottery contracts the operations of such networks with two contractors, GTECH Corporation (GTECH) and Control Data Corporation (CDC). The GTECH contract is for a term of approximately five years expiring December 31, 1992, and the CDC contract is for a term of six years expiring September 1, 1993. The New York State Lottery also contracts the operations of the Instant Games with Scientific Games, Inc. This contract is for a term of approximately six years expiring January 13, 1992. Contractor fees are based on a percentage of ticket sales as defined in the respective contracts.

Insurance Contracts — Prior to 1983, the Lottery had entered into agreements with New York insurance companies under which the Lottery purchased annuities and funding agreements under contracts that provide payments corresponding to the Lottery's obligation to the prize winners. Because it is the intent of the Lottery that the insurance companies make future installment payments directly to each prize winner, neither the present value of the annuities and funding agreements nor the present value of the related future payments are reflected in the accompanying financial statements. The Lottery may be liable for such future payments if the insurance companies were to default on their payments. Unpaid amounts under these arrangements approximated \$138,000,000 at March 31, 1991.

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.

Federal Communications Commission (FCC) Ruling —

On February 21, 1990, the FCC ruled, in response to a request from New York Telephone Company, that the New York Telephone Company should be permitted to retroactively charge intrastate rates rather than interstate rates for data telecommunications lines supplied to American Telephone and Telegraph Company (AT&T) for use by the Lottery. The Lottery estimates the amount of retroactive adjustment to approximate \$10,108,000.

The Lottery and AT&T have petitioned the FCC to reconsider its ruling, and those petitions are currently pending.

The ultimate outcome of this ruling cannot be predicted at this time. Management and in-house counsel believe that the final ruling will have no material impact on the financial position of the Lottery. Accordingly, no adjustment has been made to the accompanying financial statements.

Executive Staff

Peter D. Lynch

Director

Russell V. Gladieux

Executive Deputy Director

Daniel J. Codden

Director of Operations

Anne McCartin Doyle

Director of Public Relations

Cornelia H. Laverty

Director of Marketing

John P. McNerney

Director of Drawings

John R. McNulty

Director of Internal Audit

Vincent J. Monitto

Director of Electronic Data Processing

William J. Murray

Counsel

Edward T. Rowan

Director of Security

Henry L. Scott

Director of Administration

Regional Staff

Charles Hamilton

Regional Director, New York City

Robert Lesczinski

Regional Director, Western New York

William Lonczak

Regional Director, Central New York

Charles O'Donnell

Regional Director, Southeast New York

Diane Scala

Regional Director, Northeast New York

New York State Lottery**Main Office**

One Broadway Center

P. O. Box 7500

Schenectady, New York 12301-7500

518-388-3300

New York City**Regional Office**

90 Maiden Lane, 4th Floor

New York, NY 10038

212-804-1300

Southeastern New York**Regional Office**

463 Willis Avenue

Williston Park, New York 11596

516-747-7700

Northeastern New York**Regional Office**

855 Central Avenue

West Mall Office Plaza

Albany, New York 12206

518-457-0440

Central New York**Regional Office**

Sen. Hughes State Office Building

Syracuse, New York 13202

315-428-4026

Western New York**Regional Office**

Ellicott Square Building

295 Main Street, Suite 800

Buffalo, New York 14203

716-847-3469



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