


NEW YORK STATE LOTTERY ANNUAL REPORT FISCAL YEAR 1991-92

*1967*  
  
*1992*



# NEW YORK STATE LOTTERY ANNUAL REPORT FISCAL YEAR 1991-92

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# LETTER FROM THE DIRECTOR



As the New York State Lottery approached the quarter-century mark, fiscal year 1991-92 brought with it a mixture of challenge, change, and celebration.

For the first time in 12 years, total Lottery sales slipped from the previous fiscal year — with LOTTO suffering the largest decrease. While we knew that the weakened economy contributed to the decline, we also sensed that there were other factors. Determined to reverse the trend, we embraced our challenge early in the fiscal year, conducting extensive qualitative research which revealed two significant findings: LOTTO players needed to be better informed of LOTTO jackpot amounts and players were looking for a game with better odds and more winners.

The marketing plan we subsequently developed and implemented responded to both of these findings. LOTTO's new "Hey, You Never Know" advertising campaign, launched in November 1991, incorporated a key element, targeted LOTTO jackpot advertising. And in January 1992, a new, improved-odds, winner-focused game, TAKE FIVE, was introduced.

The Lottery's efforts proved to be successful.

Sales for the fourth quarter of the fiscal year were up 12.7 percent over the previous quarter. In particular, TAKE FIVE quickly generated three times the sales of CASH 40, the game it replaced. This upward sales trend continues.

Improved sales fostered a celebratory atmosphere at the start of 1992 — the Lottery's Silver Anniversary year. Approved by the voters as a Constitutional amendment in 1966, the Lottery began operations in 1967. In its 25 years, New York has always been a national lottery leader.

As the second oldest lottery in the country, New York Lottery's sales of \$17.4 billion have generated nearly \$8 billion for education. And more than \$9 billion in prizes have been awarded to players.

Overall, the 1991-1992 fiscal year's figures indicate that the New York Lottery remains a leader, continuing to be one of the top sales and revenue producing lotteries in the country.

As the New York Lottery continues its Silver Anniversary celebration, we look to our future and reaffirm our commitment to maximizing our revenue for the State by offering the best variety in lottery entertainment to our players.

A handwritten signature in black ink, appearing to read "Peter D. Lynch". The signature is fluid and cursive, written in a professional style.

Peter D. Lynch  
Director



# FINANCIAL PERFORMANCE

In fiscal year 1991-92, the New York State Lottery generated \$2.063 billion in ticket sales and earned \$865.2 million in revenue for the State.<sup>1</sup>

With this substantial revenue contribution, the Lottery remains the fourth largest revenue source in New York State. Lottery revenue is specifically earmarked for education and is distributed to local school districts statewide.

This was the third consecutive year that Lottery sales exceeded the \$2 billion level. However, for the first time in 12 years, sales were down from the previous year, primarily due to decreased LOTTO sales. The decline in sales began in the 1990-91 fiscal year as a result of a slowing economy and persisted in 1991-92.

While the primary cause of this sales downturn appeared to be related to the economy, the Lottery was concerned that there were other contributing factors. Determined to reverse the sales trend, the Lottery developed a detailed marketing plan to pinpoint and define the other factors and, subsequently, developed and implemented strategies to counteract them.

In-depth market research was conducted, including research into player motivation for playing LOTTO, the game which has been consistently the most popular with players and the only game which saw a reduction in sales.

This research uncovered two significant problems which the Lottery needed to address:

- Many LOTTO players were not aware of the size of LOTTO jackpots, particularly when jackpots were \$10 million or more; since LOTTO is a jackpot-driven game, players were not playing LOTTO as much as they would have if they were aware of the jackpot size.
- Players also said that they were somewhat bored and disillusioned with LOTTO, and were interested in finding a game that offered better odds and more winners.

The Lottery worked quickly to respond.

In November 1991, a new LOTTO advertising campaign, featuring the tag line, "Hey, You Never Know" was introduced. An integral part of this campaign is its "High Jackpot" publicity component in which the amount of the LOTTO jackpot is specifically advertised in television and radio ads. When the jackpot reaches \$10 million or more, this special advertising supercedes all other advertising to make LOTTO players aware of the jackpot amount, motivating them to play.

In January 1992, the Lottery introduced an exciting, new game, TAKE FIVE, giving players what they asked for — a game with better odds and more winners. With odds of 1 in 8.77 producing thousands of cash winners per drawing, TAKE FIVE

was just what players wanted. TAKE FIVE weekly sales quickly grew to three times the weekly sales for CASH 40, the lotto-style, cash-jackpot game it replaced.

The positive effects of these marketing strategies is evident in the Lottery's sales figures for the last quarter of the fiscal year. Total sales for the quarter were \$572.3 million, up 12.7 percent over the previous quarter.

Also helping boost sales for the last quarter was the Legislature's determination that unclaimed Lottery prize money should be used for the purpose intended — prizes. Beginning in September 1991, the Lottery was able to use these funds for future and bonus prizes. This change was made based on the theory that more money for prizes means more incentive for players to play — and, in the long run, more revenue for the State.

## The Distribution of Lottery Money: Aid to Education, Prizes and Operations

Lottery ticket sales money is divided among three different purposes: Revenue for Education Aid, Prizes, and Operations. While the breakdown for each game differs somewhat by law, the average breakdown per \$1.00 in sales across all games is:

Revenue	41.6 cents	
Prizes	47.0 cents	
Operations	11.4 cents	
— Sales Agent Commissions		6.0 cents
— Contractor Fees		2.8 cents
— Telecommunications, Advertising, Marketing, etc.		2.6 cents

1. The \$2.063 billion in ticket sales includes \$5.907 million in sales of the special INSTANT CASH game benefitting New York City which raised an additional \$1.524 million in revenue.

### Education Aid

The \$865.2 million in education aid generated by the Lottery in 1991-92 represents about 42 percent of all Lottery sales. On average, the Lottery earned about \$2.36 million each day for the State's local aid to education fund.

### Prizes

More than \$1.1 billion in prizes was awarded to Lottery players in fiscal year 1991-92. There were 77.5 million winning tickets in all — the equivalent of four winning tickets for every New Yorker over 18 years of age.

### Operating Costs

The New York Lottery continues its long-standing commitment to efficiency. While State law allows up to 15 percent of yearly sales to be spent for operations, the Lottery spent only 11.4 percent, or \$236.4 million, in fiscal year 1991-92.

The difference of nearly four percent, or \$73 million, was delivered to the State for education funding. Lottery operating costs include

sales agent commissions, contractor fees, such as those needed for maintaining the on-line computer game system and the printing and distribution of INSTANT CASH game tickets, and internal administration.

Sales agent commissions, totaling 6 percent of sales, were \$123.8 million. Contractor fees accounted for 2.8 percent of sales, or \$58.3 million.

Lottery internal administrative costs were 2.6 percent of sales, or \$54.3 million. These administrative expenses included \$13.7 million for advertising, \$10.3 million for salaries and benefits, and \$25.2 million for telecommunications services. The remaining administrative costs include miscellaneous expenses for such things as supplies, equipment, and other needs associated with the day-to-day operations of the Lottery.



### SALES PERFORMANCE BY GAME

Sales for each New York Lottery game during the 1991-92 fiscal year:

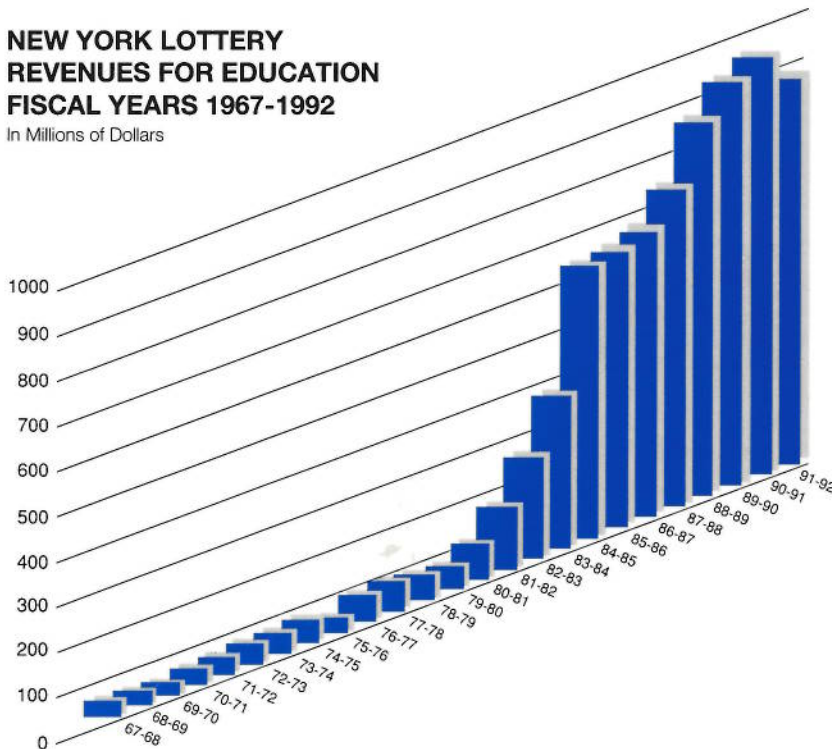
- ◆ INSTANT CASH sales were \$280.3 million
- ◆ PICK 10 sales were \$108.9 million
- ◆ WIN 4 sales were \$321.6 million
- ◆ NEW YORK'S NUMBERS sales were \$628.5 million
- ◆ LOTTO sales were \$676.3 million\*
- ◆ TAKE FIVE sales were \$41.5 million\*\*

\*This figure includes sales for CASH 40

\*\*TAKE FIVE began in January 1992

### NEW YORK LOTTERY REVENUES FOR EDUCATION FISCAL YEARS 1967-1992

In Millions of Dollars





# LOTTERY REVENUE: AID FOR EDUCATION

Lottery revenue is used by New York State to help fund education aid for elementary and secondary schools. The New York Lottery's revenues are distributed, along with other education aid funds, to school districts across the State.

In fiscal year 1991-92, the Lottery generated \$865.2 million for education. This Lottery aid comprised about 12 percent of the State's total aid to local schools.

From the Lottery's beginning 25 years ago through the end of fiscal year 1991-92, nearly \$8 billion has been generated for education in New York State.

On average, about 42 cents of every dollar that buys a Lottery ticket goes to support public education in New York State. By game, at least 45 percent of all LOTTO, TAKE FIVE and CASH 40 sales, 35 percent of all PICK 10, NEW YORK'S NUMBERS and WIN 4 sales, and 30 percent of all INSTANT CASH sales went to support education.

## **The Distribution and Use of Lottery Aid for Education**

Lottery revenues are distributed to 702 school districts in the 62 counties of New York State. The amount of aid sent to each district is based on a formula developed by the Legislature. This

formula is applied by the State Education Department to make allocations to local school districts. The formula is based on a myriad of factors, including local school district pupil population, pupil grade levels, special student needs, and full value of property within the districts.

As part of the State's guidelines for distribution of Lottery aid, \$20 is allocated for each resident enrolled pupil for the purchase and loan of textbooks. A \$10 payment for each blind and deaf student in a State-supported school 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 determine how these funds are spent. According to State education officials, examples of the use of New York Lottery aid can include computer hardware, teacher's salaries, maintenance, transportation, programs for attendance improvement and dropout prevention and a variety of other school expenses.

## **Lottery Aid: Not Extra Money for Education**

Lottery revenue is part of the State's total aid package to local schools and is 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 funding for schools.

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

## **Lottery Investments**

To offer the largest LOTTO jackpots possible, the Lottery strategically manages its investment portfolio — worth, as of March 31, 1992, more than \$1.2 billion.

The size of each LOTTO jackpot is determined by sales projections for the drawing and up-to-date investment interest rates. The jackpot amount includes the principal — the portion of sales receipts allocated for first prize for the drawing — and the interest earned on the principal over the 20-year investment period. LOTTO jackpots are paid to winners in 21 installments over a 20-year period. Through these payments, LOTTO jackpot winners receive both the principal and interest in their winnings.

The Lottery's financial managers invest the funds for LOTTO winners' jackpot prizes in Federal government securities, the safest instruments available.



**NYS SCHOOL BOARDS ASSOCIATION: LOTTERY REVENUES  
ARE A VALUABLE REVENUE SOURCE FOR EDUCATION**

The New York State School Boards Association believes that the Lottery's contributions to education aid are significant.

In February 1992, the Association published a report, "The Relationship of the Lottery to the Support of Public Education in New York State," in which it explained the Lottery's role in generating revenue for education aid.

Excerpts from the report include:

"No matter how distributed (Lottery revenues) do constitute a valuable, additional revenue source for education."

"Education in New York State is dependent upon the continuing health of the Lottery. A major shortfall would most probably result in the shift of an even greater percentage of the burden of total education expenditures onto local taxpayers."

"Over time the percentage of State aid to education provided by the Lottery has steadily increased. Thus aid to education is somewhat dependent upon the continuing success of the Lottery."

"Since the introduction of the Lottery (it) has had (a) positive impact on local property tax rates."

**NEW YORK LOTTERY AID TO EDUCATION BY COUNTY  
IN FISCAL YEAR 1991-92**

Albany.....	\$ 12,221,450.90	Niagara.....	16,819,908.75
Allegany.....	4,984,580.41	Oneida.....	18,757,634.03
Broome.....	13,762,845.18	Onondaga.....	32,222,010.18
Cattaraugus.....	9,441,465.64	Ontario.....	7,387,493.13
Cayuga.....	6,561,436.41	Orange.....	22,809,533.62
Chautauqua.....	12,687,634.68	Orleans.....	4,427,220.45
Chemung.....	7,592,943.01	Oswego.....	11,229,740.48
Chenango.....	5,763,110.08	Otsego.....	4,462,985.86
Clinton.....	7,397,456.15	Putnam.....	3,576,667.50
Columbia.....	3,678,533.62	Rensselaer.....	11,216,563.55
Cortland.....	4,370,814.05	Rockland.....	8,696,580.75
Delaware.....	3,664,187.29	Saratoga.....	14,886,202.50
Dutchess.....	12,800,391.63	Schenectady.....	8,443,433.49
Erie.....	61,640,181.89	Schoharie.....	2,832,875.60
Essex.....	1,709,053.96	Schuyler.....	1,473,860.62
Franklin.....	4,543,396.30	Seneca.....	2,604,331.20
Fulton.....	5,173,070.52	St. Lawrence.....	10,633,308.30
Genesee.....	5,399,394.55	Steuben.....	10,470,875.97
Greene.....	2,434,003.18	Suffolk.....	73,916,054.29
Hamilton.....	36,961.77	Sullivan.....	3,802,651.73
Herkimer.....	6,422,159.88	Tioga.....	5,391,607.72
Jefferson.....	9,757,549.02	Tompkins.....	5,428,703.01
Lewis.....	2,924,081.78	Ulster.....	8,556,801.31
Livingston.....	5,038,949.38	Warren.....	3,998,690.68
Madison.....	6,181,414.75	Washington.....	5,891,412.43
Monroe.....	39,757,984.90	Wayne.....	8,825,313.14
Montgomery.....	4,340,053.86	Westchester.....	12,763,082.51
Nassau.....	27,513,751.20	Wyoming.....	3,284,484.73
New York City*.....	330,207,028.90	Yates.....	1,160,362.55

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



# LOTTERY WINNERS

The average New York Lottery player is the average New York man or woman — between 25 and 44 years old, with some college education and earning between \$25,000 and \$70,000 annually.

Players from all over the State are Lottery winners. In fiscal year 1991-92, prizes worth more than \$1.1 billion were awarded to winners holding 77.5 million winning tickets. That's an average of more than four winning tickets for each New York adult.

Fifty-five new winners were added to the Lottery millionaires' club, bringing the total number of millionaires created in the 25 years of the Lottery to 824.

## **LOTTO jackpot winners include:**

- ❑ Amy McCauley of Lake Ronkonkoma won \$15.5 million on June 12, 1991;
- ❑ Navy veteran Gus Karas of Tappan won \$4.5 million on July 24, 1991;
- ❑ The Casa Shamrock group — staff members of a Brooklyn parochial school — won \$4.5 million on August 10, 1991;
- ❑ Stephen Ziolkowski of Buffalo won \$6.5 million on September 18, 1991;
- ❑ Christine Braden of Rochester won \$10 million through LOTTO subscription on November 2, 1991;

- ❑ Gentiel A. Vandeputte of Clifton Park won \$2.5 million on November 9, 1991; and
- ❑ Robert Sporer of Mohawk, one of seven winners, shared in the \$10 million jackpot of January 11, 1992.

Top prizes awarded in TAKE FIVE were as high as \$198,965.50, the first prize awarded on March 6, 1992. With odds of 1 in 8.77, the Lottery's newest game awarded an average of 36,565 cash prizes and 402,649 free play tickets for each drawing during the fiscal year. Seven of these free play tickets subsequently won the TAKE FIVE top prize during the fiscal year.

## **TAKE FIVE First Prize Winners include:**

- ❑ Marcia Bernal of Jackson Heights, one of seven first prize winners in the January 31, 1992 drawing, won \$52,527.50
- ❑ Leroy Johnson, a New Rochelle construction worker and one of eight winners in the February 21, 1992 drawing, won \$48,127.50 with a Quick Pick ticket.
- ❑ Luis Meza, of Queens, who was one of two winners in the March 6, 1992 drawing won \$198,965.50.
- ❑ Edward Liszka, a West Seneca realtor, who was one of eight winners of the February 21, 1992 drawing, won \$48,127.50.

There were 5.7 million PICK 10 cash prizes awarded, including 12 top prizes of \$500,000, in fiscal year 1991-92.

Pick 10 half-million-dollar winners include:

- ❑ Kenneth Krull of Niagara Falls who won \$500,000 on April 17, 1991;
- ❑ Vincent Nicholson of Bayville who won \$500,000 on July 13, 1991; and
- ❑ Mrs. Brunhilde Giroux of North Syracuse who won \$500,000 on March 7, 1992.

## **The millions of INSTANT CASH winners include:**

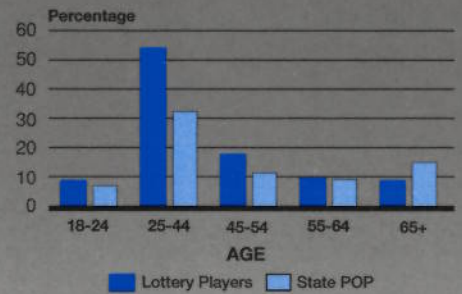
- ❑ Bonnie Hunziker of Troy who won \$2,700 playing "Hoops" in April 1991.
- ❑ Ronald Church of Alexander who won \$2,700 playing "Lucky 7's" in October 1991.
- ❑ Ethel Duncan of Gowanda who won \$2,700 playing "Lucky 7's" in November 1991.
- ❑ John Lasher of Kingston who won \$1,000 playing "High Roller" in February 1992.
- ❑ Randy Washington of Buffalo, who won \$10,000 in the "Break the Bank" game in March 1992.



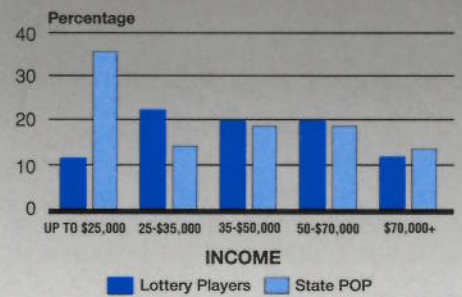


## PLAYER PROFILES

### AGE

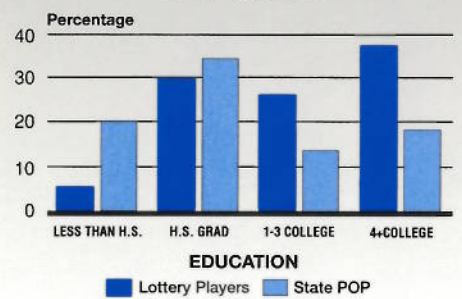


### INCOME

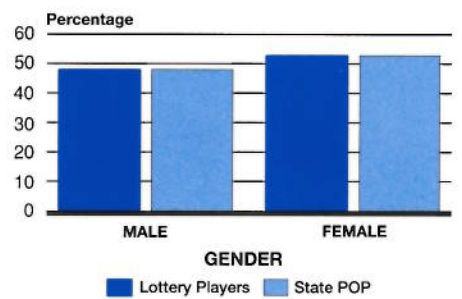


\*14% Of Players Refused To Disclose

### EDUCATION



### GENDER



# LOTTERY IN THE COMMUNITY

## **Sales Agents**

All across New York State, the Lottery has become part of everyday New York life. This is clearly demonstrated by the presence of Lottery sales agents in every neighborhood. Whether it's the corner store, a supermarket chain, a newsstand, a candy store, a convenience store, a liquor store, or a local variety store, Lottery sales agents are everywhere.

In all, there are more than 12,000 Lottery sales agents across the State. All 12,000 Lottery sales agents sell INSTANT CASH GAMES, and 7,500 of these agents are equipped with computerized Lottery terminals to sell the Lottery's five on-line games.

The Lottery forms a partnership with these business men and women to work for the success of each agent's Lottery enterprise as well as the success of the Lottery as a whole.

Lottery sales agents are also important members of the business communities they serve. Through the 6 percent commissions they earn on their Lottery ticket sales, they help to enhance their local economies. During fiscal year 1991-92, sales agents earned \$123.8 million in commissions.

The Lottery's sales agent network expanded in 1991-92 to include more chain stores such as Cumberland Farms, Kinney Drugs, and Thriftway Drugs.

## **Community Involvement**

The New York Lottery expands its presence in communities throughout the State by participating in community events and promotions.

As part of its community involvement in fiscal 1991-92, the Lottery brought the nightly televised drawings to the Erie County Fair in August. This project required careful planning and flawless implementation of an intricate move of drawing machines, cameras, lights, electronic equipment, — an entire television studio — from Albany to the fairgrounds. Featuring the drawings at the Fair gave western New Yorkers the opportunity to witness them in person and learn more about how the Lottery operates.

Other community activities included participation in many other fairs and operation of informational exhibits in shopping-malls.

Through various sales promotions, the Lottery brought contests, giveaways, fun and enjoyment to Lottery players statewide, often while helping philanthropic organizations raise funds or supporting local sports enterprises. In all, the Lottery sponsored more than 150 promotions in fiscal year 1991-92.

In 1991-92, for example, the Lottery helped raise funds for children's hospitals all across the State through a promotion with the Children's Miracle Network Telethon, and donated LOTTO subscriptions for the fund-raising auctions of the Public Television Stations in Albany, Syracuse, Buffalo, Rochester and on Long Island.

Continuing its long history of supporting sports teams (and, at the same time, marketing to a key segment of the Lottery's target audience — sports fans), the Lottery conducted promotions with such popular sports franchises as the Yankees, Mets, Jets, and Rangers, as well as the Buffalo Sabres, the New York Islanders and Knicks, the Syracuse University Orangemen, New York teams in the American Hockey League and other local teams.



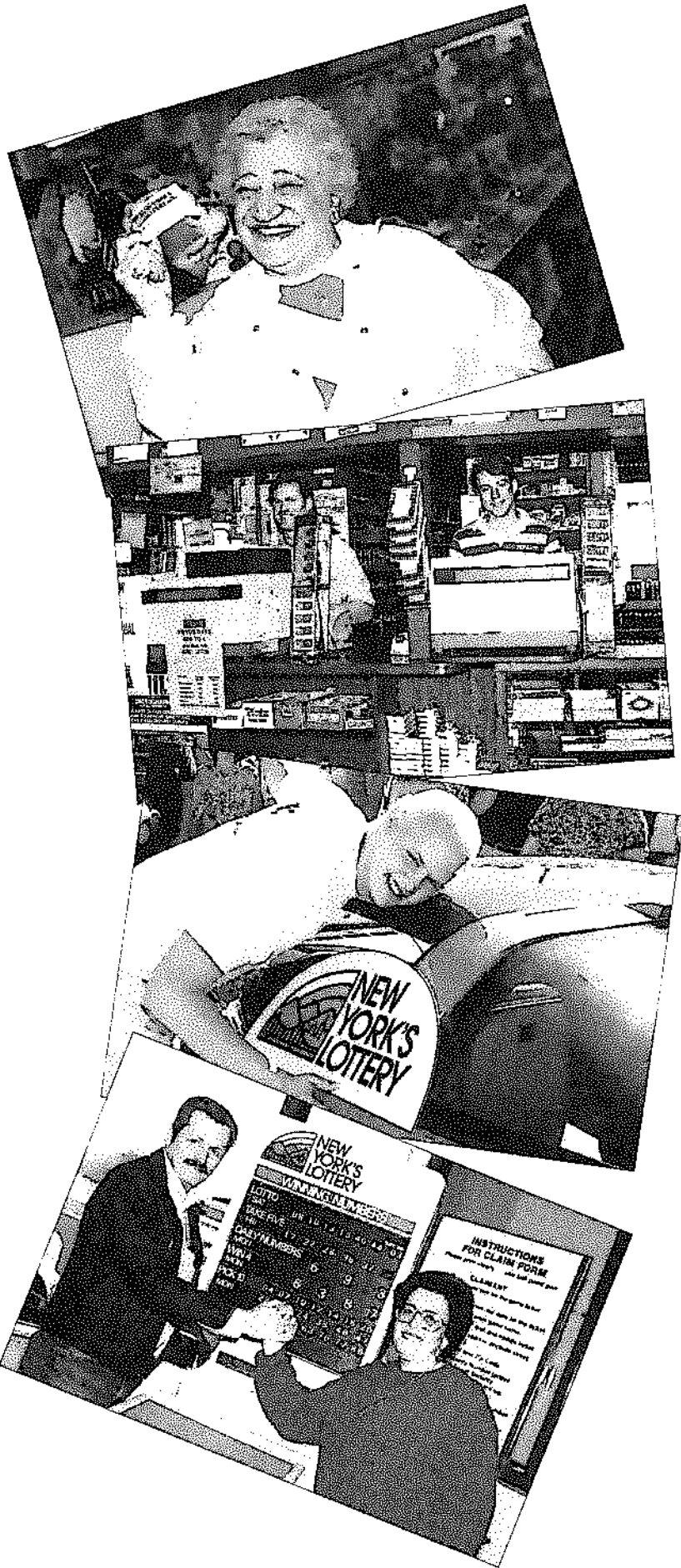


## SALES AGENT COMMISSIONS

New York Lottery sales agents earn commissions of 6 percent of ticket sales.

During fiscal year 1991-92, sales agents earned \$123.8 million in commissions. For the fourth year in a row, agent commissions exceeded \$100 million.

These Lottery commissions help keep local businesses thriving and, in turn, help their local communities remain economically viable.



# LOTTERY GAMES

The variety of games offered by the New York Lottery provides players with a smorgasbord of fun — games with different styles of play, varying prize levels, and daily and semi-weekly drawings. Player conveniences offered by the Lottery enhance the enjoyment, making playing the games easy and exciting entertainment.

## On-Line Games

Five Lottery games - LOTTO, PICK 10, NEW YORK'S NUMBERS, WIN 4 and TAKE FIVE - are run on the Lottery's on-line computer system. From the 7,500 on-line terminals at sales locations all across the State, this system routinely processes more than 30 million transactions a week.

For each on-line game, the Lottery conducts televised drawings which are aired statewide on Superstation WWOR. In addition to collecting and keeping track of players' transactions, the on-line computer system also calculates, in the hours immediately after the drawing, the prize amounts and numbers of winners in order to provide this data to sales agents and the public as soon after the drawings as possible.

NEW YORK  
LOTTO

LOTTO, the all-time favorite of Lottery players, is the multi-million dollar jackpot game where players select six numbers from a

field of 54. To win the jackpot, players must match all six randomly-drawn numbers. Prizes are also awarded for matching five numbers, four numbers and three numbers plus the supplemental number. LOTTO drawings are held twice each week, on Wednesday and Saturday.

TAKE  
FIVE

TAKE FIVE, the Lottery's newest on-line game, was introduced in January 1992 with a Friday drawing, replacing CASH 40. Players choose five numbers from a field of 39. Cash prizes are awarded for matching five, four and three numbers, and a bonus "free play" ticket is awarded for matching just two numbers. With overall odds of 1 in 8.77, TAKE FIVE creates hundreds of thousands of winners for each drawing. TAKE FIVE drawings are now held twice weekly, on Tuesday and Friday.

NEW YORK  
NUMBERS

Players who enjoy daily excitement play one of the Lottery's numbers-type games, each of which creates thousands of winners every week. NEW YORK'S NUMBERS, in which a three-digit

number is drawn, awards prizes ranging from \$25 to \$500.

WIN 4  
NEW YORK

WIN 4, in which a four-digit number is drawn, awards prizes from \$100 to \$5,000. NEW YORK'S NUMBERS and WIN 4 players also enjoy the Lottery's popular Bonus Weeks with prize payouts increased at every level by at least 20 percent.

NEW YORK  
PICK 10

PICK 10, another daily game, offers a top prize of a half-million dollars in cash. Players choose 10 numbers from a field of one through 80. Each night, the Lottery draws 20 numbers. Winners receive prizes 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 top prize winners.

## Player Conveniences

QUICK PICK — Even if you're in a hurry, it's easy to play all computerized Lottery games. With Quick Pick, the sales terminal randomly selects game numbers in just a few seconds.



ADVANCE PLAY — TAKE FIVE and LOTTO players can purchase tickets up to two drawings in advance with the Lottery's advance play option.

SUBSCRIPTION — LOTTO players, both individuals and groups, can choose to play conveniently from their own homes through the Lottery's subscription program in which subscribers' numbers are automatically entered into each drawing. Subscriptions of up to one year are available. A total of 21 millionaires won their LOTTO jackpots by subscription by the end of the fiscal year.

## INSTANT CASH GAMES

### Instant Cash Games

New Yorkers who want to win instantly play INSTANT CASH GAMES. Players rub off a coating on the tickets to see if they've won prizes which can range from \$1 to \$10,000, depending on the game. Seven new INSTANT CASH GAMES were introduced this fiscal year, including the year's most popular games, LUCKY 7'S, featuring a tic-tac-toe format on a neon-pink ticket, and KING RALPH, featuring the likeness of the popular actor John Goodman.



### LIVE DRAWINGS

Televised drawings, aired throughout the State, are conducted for each of the Lottery's on-line games. Nearly 1,300 live drawings are conducted each year. To ensure the security and integrity of each drawing, the Lottery's team of drawing professionals follows very detailed procedures under the observation of an independent auditor.

The drawing machines, made especially for the Lottery, feature a security-enhanced design. Each Lottery ball is made to order and checked regularly to ensure uniformity of size, shape and weight.

With the debut of TAKE FIVE, the Lottery also updated the look of the drawings. Each tries to capture the essence of the particular game, incorporating the colors and logos that create its individual identity for the player.



# CELEBRATING 25 YEARS

In November 1966, New York voters approved a constitutional amendment to create a state lottery, the revenue from which would be used for education aid statewide. New York was the second state, after New Hampshire, to create a modern lottery.

The New York State Lottery began operations in 1967. With each game it has offered since then, the New York Lottery's goal has been to bring as much entertainment and winnings to players, and as much revenue to the state, as possible.

In its first year, the Lottery earned \$26.6 million in revenue. Annual earnings for education have grown substantially since then, approaching nearly \$1 billion. In its 25 years, the Lottery has earned a total of nearly \$8 billion for education.

Millions of winners have received hundreds of millions of dollars in prize money throughout the

Lottery's history. Individual winners have won cash prizes ranging from \$1 to \$35 million, and multiple winners have shared in jackpots up to \$90 million.

The Lottery's Silver Anniversary pre-celebration began with the Lottery's airing of the nightly televised drawings live from Erie County Fair in August, allowing thousands of Western New York fairgoers the opportunity to see the drawings in person.

In November, 1991 the Lottery celebrated another landmark — the 13th birthday of **LOTTO** — with the unveiling of a new marketing campaign featuring the memorable tag line "Hey, You Never Know" and a **LOTTO** second chance drawing. The winner of the \$1 million **LOTTO** 13th Birthday Bonus grand prize was Loretta Zinger of Jamestown. In all, there were 1,378 bonus winners statewide.

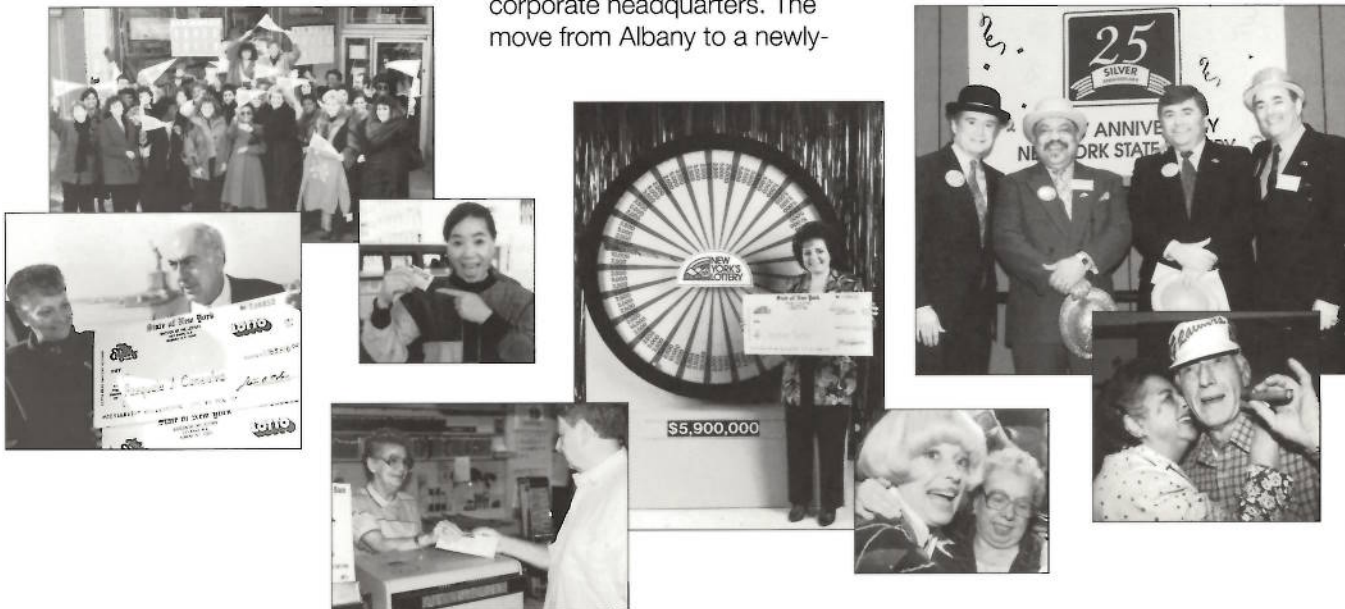
Fittingly, the Lottery began this celebratory year in brand new corporate headquarters. The move from Albany to a newly-

constructed building in downtown Schenectady took place in November, providing the Lottery with much needed space for its computer operations. A new Prize Claim Center, bringing the total to six throughout the State, was also opened at the headquarters.

In December, the Lottery extended drawing night purchases for **LOTTO** by two hours, allowing players the convenience of participating in that night's drawing up until 10 pm.

At the start of 1992, the Lottery's celebrations moved into full gear with the introduction of a new, winner-focused game, **TAKE FIVE**, which answered players requests for a game with better odds and more winners, and a new **INSTANT CASH** game.

Regis Philbin, quintessential New Yorker and star of the television show "Live with







Regis and Kathie Lee," helped the Lottery announce the new game on January 13. Regis and the Lottery kicked off the Lottery's 25th Anniversary with a news conference in New York City and interviews via satellite with news stations throughout upstate New York.

With overall odds of 1 in 8.77 and thousands of winners for each drawing, **TAKE FIVE** gained instant popularity. It became so popular, in fact, that within six months of its introduction the Lottery increased the frequency of **TAKE FIVE** drawings to two each week, on Tuesday and Friday.

A special **INSTANT CASH GAME** was also introduced. The "Silver Anniversary" tickets featured scenes of five New York locations, Niagara Falls, a New York farm, the Albany skyline, the Brooklyn

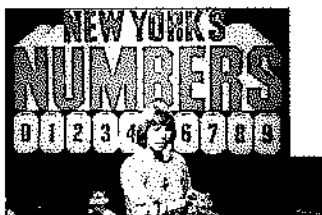
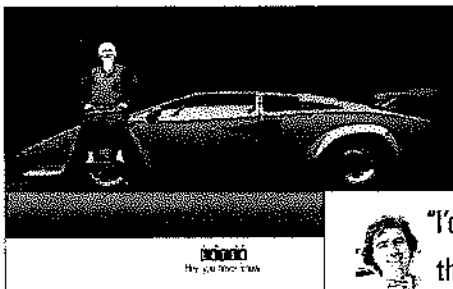
Bridge and Montauk Point. A highlight of the game was a second chance drawing for cash prizes and "I Love New York" family vacations and weekend trips for two.

The Anniversary specials continued through the remaining months of the 1991-92 fiscal year with bonus cash, merchandise prizes and promotions. A special \$10 million **LOTTO** jackpot was offered on January 18. The month of February featured bonus weeks for **NEW YORK'S NUMBERS** and **WIN 4** and a leap year **LOTTO** jackpot on Saturday, February 29 of \$25 million.

Throughout the 1992 calendar year, the continuing Silver Anniversary promises to bring more fun, entertainment—and prizes — to New York Lottery players.

## LOTTERY FUN FACTS

- ◆ In 25 years, the New York Lottery has sold more than \$17.4 billion tickets.
- ◆ New York is a Lottery pioneer in the U.S., introducing the first successful **LOTTO** game, the first **KENO**-type game, one of the first **INSTANT**-type games, and one of the first play-by-mail **LOTTO** subscription programs.
- ◆ In 25 years, the New York Lottery has earned nearly \$9 billion in revenue for education in New York State.
- ◆ New York's first \$1 million prize was awarded to George Ashton of West Hempstead in 1970.
- ◆ In 25 years, the New York Lottery has awarded more than \$9 billion in prizes for more than 500 million winning tickets.
- ◆ Antonio Buetti won the largest single **LOTTO** prize ever — \$35 million in 1990.
- ◆ In 25 years, the New York Lottery has created more than 820 millionaires.
- ◆ The largest **LOTTO** jackpot ever offered was the \$90 million **SUPER LOTTO** jackpot of January 26, 1991. It was divided among 9 winning tickets.
- ◆ In 25 years, the New York Lottery has paid more than \$1 billion in sales agent commissions.



"I'd buy this newspaper and only run comics and sports."

See how easy it is to win! Call 1-800-456-7890. You'll want to see what we can do for you. **LOTTO** is your best bet to win big!



## 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, 1992 and 1991, 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, 1992 and 1991, 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 29, 1992



**STATEMENTS OF ASSETS AND LIABILITIES**

March 31, 1992 and 1991 (in Thousands)

	1992	1991
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 98,571	\$ 104,781
Accounts receivable	44,025	35,797
Investments, at amortized cost	131,507	119,047
Total current assets	274,103	259,625
Long-term investments, at amortized cost	1,021,746	924,592
Equipment and leasehold improvements, net of accumulated depreciation and amortization	9,002	4,597
Total assets	<b>\$1,304,851</b>	<b>\$1,188,814</b>
<b>LIABILITIES</b>		
Current liabilities:		
Prizes payable	\$ 131,731	\$ 117,111
Unclaimed and future prizes	76,991	96,958
Due to education	29,889	8,137
Due to administration	12,026	4,622
Other payables	18,464	21,997
Total current liabilities	269,101	248,825
Long-term prizes payable	1,035,750	939,989
Commitments and contingencies (Note 10)		
Total liabilities	<b>\$1,304,851</b>	<b>\$1,188,814</b>

**STATEMENTS OF REVENUES AND EXPENSES**

For the Years Ended March 31, 1992 and 1991 (In Thousands)

	1992	1991
Ticket sales	<b>\$2,063,069</b>	\$2,134,644
Less:		
Prizes	(968,708)	(949,816)
Agent commissions	(123,827)	(128,104)
Contractor fees	(58,259)	(57,122)
Gross profit on ticket sales	912,275	999,602
General and administrative expenses	54,320	55,044
Income from operations	857,955	944,558
Nonoperating revenues (expenses):		
Interest income	105,809	105,924
Interest expense-amortization of discount on prizes payable	(97,663)	(94,648)
Other, net	576	1,744
Total nonoperating revenues (expenses)	8,722	13,020
Income earned and required allocation to education	<b>\$ 866,677</b>	<b>\$ 957,578</b>
Components of income earned and required allocation to education:		
New York State	\$ 865,153	\$ 957,578
New York City	1,524	
	<b>\$ 866,677</b>	<b>\$ 957,578</b>

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, 1992 and 1991

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

	1992	1991
Cash flows from operating activities:		
Cash received from ticket sales	<b>\$2,054,521</b>	\$2,113,851
Cash payments for prizes	<b>(976,631)</b>	(893,236)
Cash payments for commissions and fees	<b>(182,105)</b>	(182,091)
Cash payments for general and administrative expenses	<b>(44,330)</b>	(58,763)
Net cash provided by operating activities	<b>851,455</b>	979,761
Cash flows from noncapital financing activities:		
Cash transfer to education	<b>(844,925)</b>	(940,011)
Cash flows from capital and related financing activities:		
Cash payments for equipment and leasehold improvements	<b>(3,310)</b>	
Principal payments on capital lease	<b>(842)</b>	
Net cash used in capital and related financing activities	<b>(4,152)</b>	
Cash flows from investing activities:		
Proceeds from investment maturities	<b>124,596</b>	106,675
Proceeds from sale of investments	<b>5,951</b>	2,160
Purchases of investments	<b>(147,277)</b>	(162,418)
Interest on cash and cash equivalents	<b>7,581</b>	11,449
Other cash payments and receipts, net	<b>561</b>	1,788
Net cash used in investing activities	<b>(8,588)</b>	(40,346)
Net decrease in cash and cash equivalents	<b>(6,210)</b>	(596)
Cash and cash equivalents, beginning of year	<b>104,781</b>	105,377
Cash and cash equivalents, end of year	<b>\$ 98,571</b>	\$ 104,781
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	<b>\$ 857,955</b>	\$ 944,558
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization	<b>1,012</b>	217
Changes in assets and liabilities affecting income from operations:		
Accounts receivable	<b>(8,522)</b>	(7,341)
Prizes payable	<b>13,062</b>	72,404
Unclaimed and future prizes	<b>(19,967)</b>	(26,375)
Due to administration	<b>7,405</b>	(3,936)
Other payables	<b>510</b>	234
Net cash provided by operating activities	<b>\$ 851,455</b>	\$ 979,761

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.

During fiscal year 1992, Chapter 6 of the Laws of 1991 created a special anti-crime scratch-off game (the City games) for sale only within the City of New York. Its purpose was to generate revenue for educational purposes, including security at educational facilities, within New York City. The City games began in September 1991 and are authorized by the legislation to continue through June 1996. The New York State Lottery will administer the City games and will be reimbursed for administrative costs (including agent commissions and contractors' fees) of the games up to a maximum of 15 percent of games sales. The law also requires the City games to reimburse the Lottery for shortfalls in net revenue, as defined, resulting from other scratch-off games administered by the Lottery in the City of New York not increasing at an annual rate of 5 percent.

**Revenue Recognition**—Revenue from completed scratch-off games is reported based on the dollar value of lottery ticket sales. Ticket sales are determined based on the total number of tickets available for sale for each game less unsold tickets at the conclusion of each game.

Revenue from scratch-off 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 scratch-off game ticket contractor.

Revenue from Lotto, Cash 40, Take 5, Pick 10, Daily Numbers 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 \$10,636,000 and \$8,952,000 for fiscal years 1992 and 1991, respectively.

On January 17, 1992, the Lottery replaced Cash 40 with Take 5, 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 30 percent for the New York State Lottery

- scratch-off games, 35 percent for Daily Numbers, Win-Four and Pick 10, and 45 percent for Lotto, Cash 40, and Take 5. During fiscal year 1992, legislation was passed changing the allocation of ticket sales revenue to education from 35 percent to 30 percent for scratch-off games and from 45 percent to 35 percent for Pick 10.

- allocations of ticket sales revenue to New York City for educational purposes to be at least 35 percent for the New York City scratch-off games, less any reimbursement to the Lottery for shortfalls in net revenue, as defined.

- allocations of ticket sales revenue for the payment of lottery prizes not to exceed 55 percent for the New York State Lottery scratch-off games, 50 percent for the Daily Numbers, Win-Four, Pick 10 and the New York City scratch-off games, and 40 percent for Lotto, Cash 40, and Take 5. During fiscal year 1992, legislation was passed changing the allocation of ticket sales revenue to prizes from 50 percent to 55 percent for scratch-off games and from 40 percent to 50 percent for Pick 10.

- 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 \$74,995,000 and \$84,971,000 for fiscal years 1992 and 1991, respectively. Administration expenses incurred by the Lottery represent telecommunications, advertising, salary and other operating costs and include an accrual for expenses to be paid after the fiscal year-end.

**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 and Leasehold Improvements**—Equipment and leasehold improvements are carried at cost. Depreciation of equipment is computed using the straight-line method over five years, the estimated useful lives of the assets. Amortization of leasehold improvements and equipment acquired under capital leases are amortized using the straight-line method over ten and five years, respectively, which is the lesser of their useful lives or the term of the leases.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts and any resulting gain or loss is reflected in nonoperating revenues (expenses) in the period of disposal.

**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 holder. Total prizes unclaimed



## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

amounted to approximately \$36,886,000 and \$28,663,000 for fiscal years 1992 and 1991, respectively.

Legislation passed in June 1991 allows the Lottery to retain unclaimed prizes and to use such amounts for payment of supplemental prizes in subsequent Lottery games. During fiscal year 1992, such supplemental prizes were paid for Lotto and Take 5. Prior to this legislation, unclaimed prizes were allocated to education. Such allocations amounted to approximately \$6,515,000 and \$28,663,000 for fiscal years 1992 and 1991, respectively.

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

### 2. CASH AND CASH EQUIVALENTS

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

Lottery sales receipts are allocated and deposited in investment fund accounts for prizes, education and administration under the joint custody of the Lottery and the Office of the State Comptroller of the State of New York. The 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 \$91,408,000 and \$92,200,000 at March 31, 1992 and 1991, 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 included in cash and cash equivalents related to sole custody accounts were \$7,163,000 and \$12,581,000 for fiscal years 1992 and 1991, respectively.

The Lottery's deposits are collateralized under a program administered by the Office of the State Comptroller of the State of New York. The State requires that its depository banks pledge collateral based on available bank balances. All securities pledged as collateral are held by the State's fiscal agent in the name of the State. The Lottery's deposits with financial institutions were fully collateralized at fiscal year-end.

### 3. INVESTMENTS

The Lottery is authorized to invest in U.S. Government-backed obligations (zero coupon bonds and stripped Government securities), which will provide for the payment of prizes payable (see Note 5). During fiscal years 1992 and 1991, approximately \$98,525,000 and \$94,923,000, respectively, of amortized discount was included in interest income.

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

	1992	1991
Maturity value	\$2,194,074	\$2,043,222
Less unamortized discount	1,040,821	999,583
Total carrying value	1,153,253	1,043,639
Less: investments, maturing within one year	131,507	119,047
Long-term investments	\$1,021,746	\$ 924,592
Total market value	\$1,258,323	\$1,115,751

Maturities of the investments in each of the five fiscal years following March 31, 1992, and the total thereafter, are as follows (in thousands):

1993	\$ 136,715
1994	136,232
1995	136,980
1996	136,984
1997	136,973
1998 and thereafter	1,510,190
	<u>\$2,194,074</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 AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements as of March 31, 1992 and 1991 are as follows:

	1992	1991
Equipment (principally a capital lease)	\$5,804,512	\$4,914,495
Leasehold improvements	4,526,017	
	<u>10,330,529</u>	<u>4,914,495</u>
Less: accumulated depreciation and amortization	(1,328,915)	(317,200)
Equipment and leasehold improvements, net	<u>\$9,001,614</u>	<u>\$4,597,295</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 semi-annual payments approximating \$573,000 each, through March 1996. Accumulated amortization for the equipment recorded under the capital lease approximated \$1,086,000 and \$217,000 for fiscal years 1992 and 1991, respectively.

### 5. PRIZES PAYABLE

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

	1992	1991
Total obligation	\$2,203,978	\$2,052,572
Less unamortized discount	1,036,497	995,472
Total carrying amount	1,167,481	1,057,100
Less: prize payable within one year	131,731	117,111
Long-term prizes payable	<u>\$1,035,750</u>	<u>\$ 939,989</u>

The amortized discount on the prizes payable is based on interest rates which range from 4.16 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 \$97,663,000 and \$94,648,000 for the fiscal years 1992 and 1991, respectively.



The aggregate amount of prizes payable due in each of the five fiscal years following March 31, 1992, and the total thereafter, is as follows (in thousands):

1993	\$ 136,814
1994	136,714
1995	136,604
1996	136,604
1997	136,604
1998 and thereafter	1,520,638
	<u>\$2,203,978</u>

## 6. OPERATING SEGMENT INFORMATION

Operating segment information for fiscal 1992 and 1991 by type of lottery game is as follows (in thousands):

	1992				
	Ticket Sales	Prizes	Agent Commissions	Contractor Fees	Gross Profit On Ticket Sales
Lotto	\$ 618,062	(\$246,645)	(\$ 37,083)	(\$11,607)	\$322,727
Cash 40	58,276	(23,122)	(3,497)	(1,174)	30,483
Take 5	41,519	(16,716)	(2,534)	(750)	21,519
Pick 10	108,941	(51,044)	(6,536)	(2,138)	49,223
Daily Numbers	628,460	(315,172)	(37,708)	(12,180)	263,400
Win-Four	321,562	(161,118)	(19,294)	(6,238)	134,912
Scratch-off Games	280,342	(151,935)	(16,821)	(23,795)	87,791
City Games	5,907	(2,956)	(354)	(377)	2,220
	<u>\$2,063,069</u>	<u>(\$968,708)</u>	<u>(\$123,827)</u>	<u>(\$58,259)</u>	<u>\$912,275</u>
General and administrative expenses					(54,320)
Nonoperating revenues (expenses)					8,722
Income earned and required allocation to education					<u>\$866,677</u>

Income earned and required allocation to education for New York City of \$1,524 in fiscal year 1992 is comprised of gross profit on the City games of \$2,220 less general and administrative expenses of \$146 and nonoperating expenses (net) of \$550.

	1991				
	Ticket Sales	Prizes	Agent Commissions	Contractor Fees	Gross Profit On Ticket Sales
Lotto	\$ 771,815	(\$293,945)	(\$ 46,308)	(\$13,369)	\$418,193
Cash 40	79,513	(30,239)	(4,771)	(1,469)	43,034
Pick 10	119,065	(45,964)	(7,169)	(2,234)	63,698
Daily Numbers	615,543	(306,309)	(36,933)	(11,404)	260,897
Win-Four	286,747	(141,536)	(17,205)	(5,332)	122,674
Scratch-off Games	261,961	(131,823)	(15,718)	(23,314)	91,106
	<u>\$2,134,644</u>	<u>(\$949,816)</u>	<u>(\$128,104)</u>	<u>(\$57,122)</u>	<u>\$999,602</u>
General and administrative expenses					(55,044)
Nonoperating revenues (expenses)					13,020
Income earned and required allocation to education					<u>\$957,578</u>

Amounts included above for prizes are based upon the statutory allocation of total sales revenue for each of the Lottery games. Actual prizes paid or to be paid to winners may be higher when the Lottery supplements prizes with unobligated amounts included in unclaimed and future prizes.

During 1991 such supplements included increasing the statutory prize payout for the Pick 10 and Scratch-off games by 10% and 5%, respectively as well as a one-time special "Super Lotto." During 1992, legislation changed the statutory prize allocation for the Pick 10 and Scratch-off games (see Note 1).

## 7. EDUCATION

Income earned and required allocation to education during the fiscal years ended March 31, 1992 and 1991 are as follows:

	1992	1991
Revenue transferred to education	\$ 844,925	\$ 940,011
Prior year (payable) overtransfer	( 8,137)	9,430
Amount transferred from		
current year revenue	836,788	949,441
Current year payable	29,889	8,137
Income earned and required allocation to education	<u>\$ 866,677</u>	<u>\$ 957,578</u>

## 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, 1992 was approximately \$7,734,000; the Lottery's total payroll was approximately \$7,898,000.

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 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, 1991 (1992 plan data is not available) totaled approximately 823,012, including 256,302 retirees and beneficiaries currently receiving benefits and no longer working members entitled to benefits but not yet receiving them; 72,160 nonvested inactive members, and 494,550 current working members.

The contribution requirement for the year ended March 31, 1992 was \$303,127, which consisted of \$154,807 from the Lottery and \$148,320 from employees; these contributions represented 2.0% and 1.9% of covered payroll, respectively.

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 "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, 1991 for the System as a whole, determined through an actuarial valuation performed as of that date, was \$40,080,000,000. The System's net assets available for benefits on that date (valued at market) were \$42,915,000,000 resulting in assets in excess of pension benefit obligation of \$2,835,000,000. The Lottery's 1991 contribution represented .4 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, 1991 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 scratch-off games with Scientific Games, Inc. This contract is for a term of two years expiring January 13, 1994. 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 \$118,000,000 at March 31, 1992.

**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.





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