



*New York State Lottery
Annual Report
Fiscal Year 1993-94*

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Director's Message



For 27 years the New York Lottery has achieved steady sales growth with few setbacks -- a record of

remarkable consistency. We have sustained this high level of performance by staying alert to change and by planning and building for the future.

Today, the lottery entertainment industry is in the midst of rapid change. The technology, the games and even player preferences are all constantly evolving. The successful lottery is the one that quickly adapts to the changing marketplace, without major disruptions to its day-to-day operations. This is exactly what we at the New York Lottery did during this past year.

In fiscal year 1993-94, the Lottery embarked

on a massive upgrade of its on-line game systems and instant ticket technology -- a move that lays the foundation for growth in the years to come.

With our new state-of-the-art technology now in place, New York's Lottery is positioned to seize sales and marketing opportunities that were previously unavailable. And, we are pleased to report that we have acquired this advanced technology at a savings to the State of nearly \$40 million over the next five years.

Special recognition must be extended to our licensed Lottery sales agents, who offered input and invaluable feedback throughout the year-long systems and equipment conversions.

Over the first eight months of the fiscal year, some 8,000 agents that sell on-line games received

and were trained in the use of a new, high efficiency sales terminal. The INSTANT CASH game transformation was perhaps even more dramatic, given the need to introduce all 11,500 agents to entirely new equipment and technology, as well as new methods of ticket distribution.

Thanks to last year's effort, Lottery players are receiving a better product more efficiently, and with greater convenience than ever before.

Overall, the 1993-94 New York Lottery achievements underscore our commitment to face the future with confidence in our ability to maximize the revenues so important to education.

A handwritten signature in black ink, appearing to read "Peter Lynch".

Peter D. Lynch
Director

1993-94 Business Highlights

Continuing its long-standing tradition of leadership among North American lotteries, New York Lottery again held the distinction of being America's leading lottery in net profits and sales in calendar year 1993. Only the national lotteries of Spain, France and Japan had greater sales than New York's Lottery last year.

For the second time in its history, the New York Lottery earned more than \$1 billion in revenues for the State in 1993-94. It also achieved record ticket sales of \$2.37 billion. Fulfilling its mandate, the Lottery remains a significant contributor of revenue for education, generating nearly \$10 billion since its inception in 1967.

A Foundation For The Future

The New York Lottery's sales leadership of the lotteries of

the nation and much of the world is one measure of its success. However, 1993-94 marked the achievement of even more important milestones towards future growth.

Looking back, it was a year of planning and development, with emphasis on acquiring the technology to support an expanded marketing effort in 1994.

In a massive rebuilding of its technological infrastructure, the New York Lottery laid a firm foundation that will assure the efficiency of its operations into the twenty-first century. Prime contracts--for operating the on-line game system and enhancing INSTANT CASH games management--were awarded, providing the most technologically advanced telecommunications network and equipment available.

Building Blocks

During a year-long effort, building blocks for the future were set in place:

- By September 1993, the 8,000 retail agents who sell the Lottery's computerized, on-line games were converted to a new state-of-the-art sales terminal, offering New Yorkers faster, better and more efficient service.

The new terminals offer benefits to ticket sellers and ticket buyers alike--including speedy transaction processing, improved reliability, and a convenient, multi-game ticket with larger, easy to read printing. In addition, the new on-line games contract is more cost effective and will produce savings to taxpayers of \$40 million over five years.

- By March 1994, all 11,500 licensed sales agents, including some 3,500 who offer only INSTANT CASH games, were equipped with automatic prize validation systems.

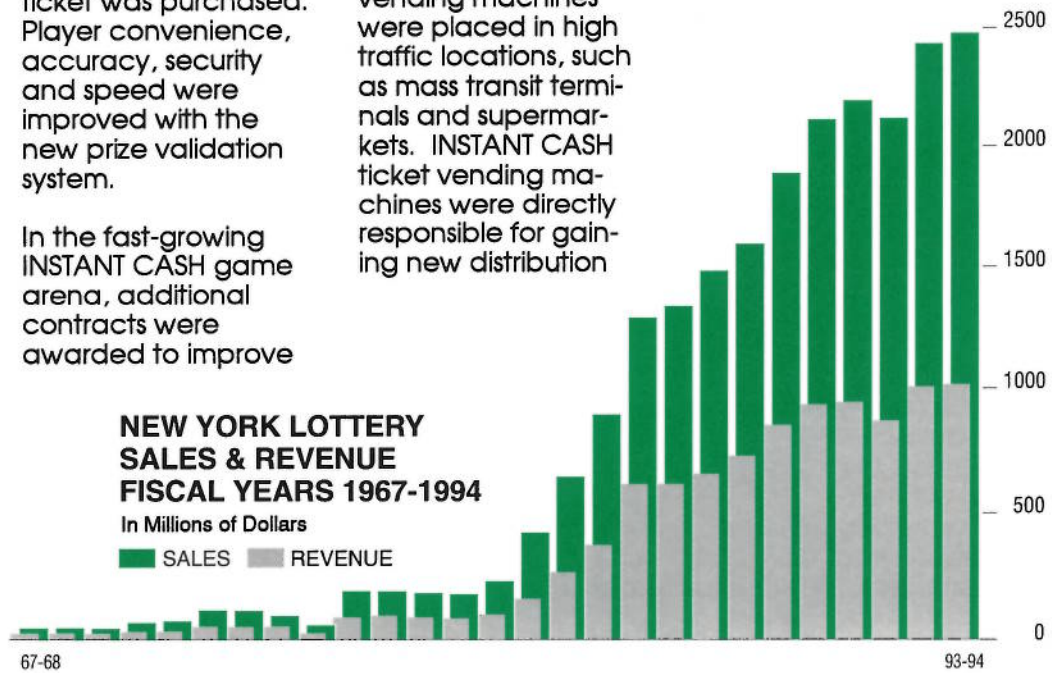
These systems, featuring electronic bar code scanning, allow INSTANT CASH game winners to redeem prizes up to \$600 instantly at any agent location throughout the state, regardless of where the winning ticket was purchased. Player convenience, accuracy, security and speed were improved with the new prize validation system.

In the fast-growing INSTANT CASH game arena, additional contracts were awarded to improve

the printing and marketing of INSTANT CASH tickets. The new printing technology allows more diverse, eye-catching and colorful ticket formats, and ticket books are designed to include a more varied prize structure to enhance customer interest and suspense. To provide new levels of accessibility, customer convenience and enhanced ticket distribution, 1,000 new INSTANT CASH ticket vending machines were placed in high traffic locations, such as mass transit terminals and supermarkets. INSTANT CASH ticket vending machines were directly responsible for gaining new distribution

outlets through major corporate chains such as A & P, Waldbaums and Grand Union stores.

By the end of fiscal year 1993-94, the New York Lottery had completely overhauled its infrastructure, acquiring the latest technology to provide more exciting and more convenient Lottery games for New Yorkers--a foundation for continued growth in the decades to come.



Lottery Sales Dollar Allocation

Lottery ticket sales proceeds are divided among three different categories: Revenue for Education Aid, Prizes, and Operations.

Education Aid

The \$1.01 billion in education aid generated by the Lottery in 1993-94 represents about 42 percent of all Lottery sales. On average, the Lottery earned about \$2.7 million each day for the State's local aid to education fund.

Prizes

Prizes totaling more than \$1.27 billion, representing 47 percent of sales, were awarded to 95.9 million winning ticket holders in fiscal year 1993-94.

Operating Costs

In 1993-94, the New York Lottery maintained its ever-present commitment to efficiency. A prime example of a public-private partnership, the Lottery manages retailers who sell its

game tickets and contractors who operate the technology used to produce and deliver its products. Its small workforce of 250 is among the most productive in the industry, with a 1993-94 ratio of \$9.47 million in sales achieved for each employee.

While State law allows up to 15 percent of yearly sales to be spent for operations, in 1993-94, the Lottery spent only 10.84 percent, or \$256.7 million, on all operating expenses. The difference of more than 4 percent, or \$101.6 million (includes interest earned and miscellaneous income of \$3.0 million), was delivered to the State for education funding.

Lottery operating costs include sales agent commissions, contractor fees, such as those needed for operating and maintaining the on-line game system and the printing and distri-

bution of INSTANT CASH game tickets, and general administration:

- Sales agent commissions, totaling 6 percent of sales, were \$142.1 million.
- Contractor fees accounted for 2.1 percent of sales, or \$50.6 million.¹
- Lottery administrative costs were 2.7 percent of sales, or \$64.0 million. These administrative expenses included: \$19.4 million for telecommunications services supporting the on-line gaming network; \$21.9 million² for advertising; and, \$11.5 million for salaries and benefits. The remaining administrative costs are for supplies, equipment, and other needs associated with daily operations.

¹Includes contractor's share of advertising at \$9.57 mil.

²Excludes contractor's share of advertising.

1993-94 LOTTERY SALES DOLLAR ALLOCATION



42% SCHOOL AID



47% PRIZES

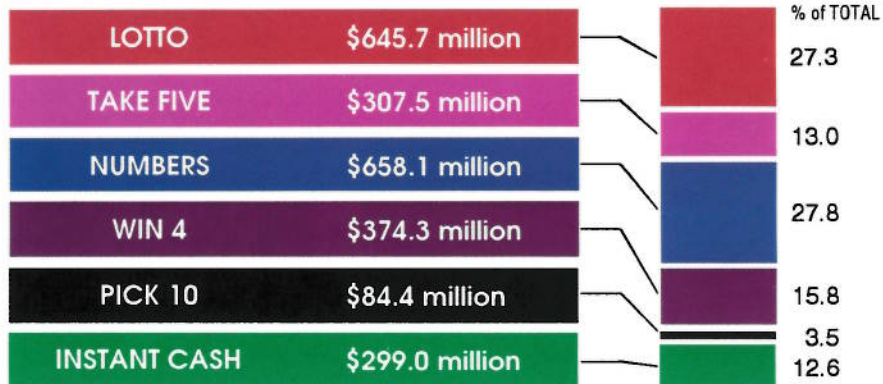


5% COMPUTERS, TELECOMMUNICATIONS, ADVERTISING, & ALL OTHER OPERATING COSTS



6% STORE OWNER COMMISSIONS

1993-94 LOTTERY SALES DOLLAR SOURCES



Lottery Revenue: Aid To 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 1993-94, the Lottery earned \$1.01 billion for education. This Lottery aid comprised 11.5 percent of the State's total aid to local schools.

From the Lottery's beginning in 1967, nearly \$10 billion has been generated for education in New York State.

The Distribution & Use of Lottery Aid for Education

Lottery revenues are distributed to the more than 700 school districts in the 62 counties of New York

State. The specific amount of aid sent to each district is based on a statutory formula developed by the Legislature. This formula is applied by the State Education Department in allocating funds to local school districts. The formula considers a number 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 and its locally elected officials determine how these funds are spent. Examples of the use of New York Lottery aid can include computer hardware, teacher salaries, maintenance, transportation, programs for attendance improvement and dropout prevention and a variety of other school expenses.

Lottery Aid: An Important Part of the Total

Lottery revenue is part of the State's total aid package to local schools and is not

extra funding. Lottery aid is not an added bonus to the State's allocation for education, but is an integral part of the State's total funding for schools.

Without the Lottery, State aid to education might well be reduced, taxes more rapidly increased, or other State programs curtailed or eliminated to make up the difference.

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

"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...."

NYS School
Boards Association 1992 Report

New York Lottery Aid To Education By County In Fiscal Year 1993-94

ALBANY	\$14,378,283.80
ALLEGANY	\$5,547,610.05
BROOME	\$15,915,750.60
CATTARAUGUS	\$10,554,819.71
CAYUGA	\$7,238,750.97
CHAUTAUQUA	\$14,303,920.90
CHEMUNG	\$8,512,974.07
CHENANGO	\$6,201,946.70
CLINTON	\$8,028,748.10
COLUMBIA	\$3,841,662.72
CORTLAND	\$4,691,790.97
DELAWARE	\$4,057,224.39
DUTCHESS	\$13,860,435.01
ERIE	\$69,942,659.58
ESSEX	\$1,909,826.43
FRANKLIN	\$5,017,649.94
FULTON	\$5,795,935.10
GENESEE	\$6,124,854.91
GREENE	\$2,750,424.53
HAMILTON	\$77,232.26
HERKIMER	\$6,876,615.44
JEFFERSON	\$10,763,685.85
LEWIS	\$3,199,369.98
LIVINGSTON	\$5,650,045.72
MADISON	\$6,804,551.57
MONROE	\$49,139,487.33
MONTGOMERY	\$4,786,306.43
NASSAU	\$30,808,665.17
NIAGARA	\$19,146,523.03
NEW YORK CITY	\$371,842,989.03*
ONEIDA	\$21,006,869.09
ONONDAGA	\$36,694,639.22
ONTARIO	\$8,464,701.32
ORANGE	\$24,162,682.94
ORLEANS	\$4,851,621.42
OSWEGO	\$12,161,223.26
OTSEGO	\$5,294,464.85
PUTNAM	\$3,584,905.11
RENSSELAER	\$12,072,009.97
ROCKLAND	\$8,777,914.95
SARATOGA	\$16,326,914.22
SCHENECTADY	\$9,666,556.18
SCHOHARIE	\$3,194,383.80
SCHUYLER	\$1,551,872.76
SENECA	\$2,887,192.41
ST. LAWRENCE	\$11,606,096.63
STEBEN	\$10,636,759.70
SUFFOLK	\$73,786,436.74
SULLIVAN	\$4,614,956.32
TIOGA	\$5,894,331.95
TOMPKINS	\$6,331,392.63
ULSTER	\$9,876,524.57
WARREN	\$4,446,180.59
WASHINGTON	\$6,225,810.99
WAYNE	\$9,883,782.24
WESTCHESTER	\$15,760,935.86
WYOMING	\$5,061,500.71
YATES	\$1,386,204.63

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

Lottery Winners

Players from all over the State are Lottery winners. Last year more than \$1.27 billion was won by 95.9 million winning ticket-holders. That's an average of more than seven and a half winning tickets for each New York adult

over the age of 18.

The Lottery added 51 new

winners to the millionaires' club, bringing the total number of millionaires created in the 27 years of the Lottery to 1,029.



LOTTO jackpot winners include:

Larry Jones of Watertown, laid off after 20 years with the same company, was glad to see the \$1.4 million he won on Christmas Eve.

Robert Lyon of Bellport, Long Island, represented the "Lyon Family," who claimed the \$7 million jackpot on December 15.

Madeline Ferraro of Brooklyn actually won her \$15 million jackpot in January 1993 but did not find the ticket until December 1993, just one month before its expiration date.



Loxley Brown became the third LOTTO jackpot winner in the Buffalo area in a one-month period when he claimed \$7.5 million on November 13, **The Nostro Family** of Buffalo were winners of \$10 million on November 3 and **Ed Przybyszewski** of Cheektowaga won \$2.25 million on October 20.

After winning a golf tournament the weekend of July 24, **Tony Hoogendyk** of Woodstock told his wife, Kathy, his next big win would be in LOTTO. The next day he learned his ticket for that Saturday's LOTTO drawing was worth \$2.5 million.



TAKE FIVE First Prize Winners include:

Linda Blackman of Harford was one of three winners in the TAKE FIVE drawing of March 11, 1994, who won the first prize of \$112,256 each.

Billie J. Anderson of Beacon said he was headed for the 1994 Super Bowl in January when he collected a TAKE FIVE first prize of \$155,808.

Charlotte Lang of Buffalo said that she and her husband "cemented (their) retirement plans" when they realized they had won \$137,322 in TAKE FIVE in April.

Joseph McCarthy of Massena took his wife, Lynn, for an after work drink one Monday last August, showed her a TAKE FIVE ticket and calmly told her it was worth \$61,840.

June Felder of Queens was a \$93,371 first-prize winner in TAKE FIVE in January.

PICK 10 half-million dollar winners were:

Alan Golus of Kings Point won a \$500,000 PICK 10 first prize in November.

William McNulty of Niagara Falls won his \$500,000 PICK 10 first prize on April 11.

Thomas Wortham of Manhattan, didn't realize he would receive his \$500,000 in a single payment -- less tax withholding -- when he claimed his PICK 10 prize in May.

Michael Ahearn of Long Island City was a \$500,000 winner in September.

Among the more than 54 million INSTANT CASH game winners in 1993-94 were:

Willard Farley of Poughkeepsie who won \$2,500 in the INSTANT CASH "Monopoly" game in February 1994.

Timothy Angus of Malone who hit "Lucky 7's" for \$2,700 in December 1993.

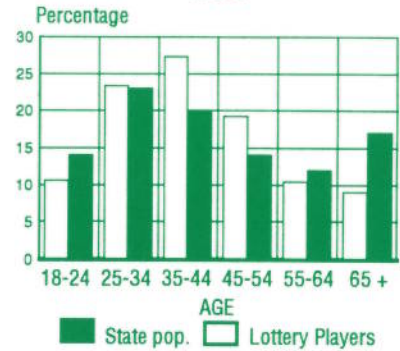
Benita Bornt, a Melrose mother of three teenagers, who won \$5,000 in "Cash Roulette" in February 1994.

Annette Sanci of Brooklyn won \$1,000 in "Grand Slam" in June 1993.

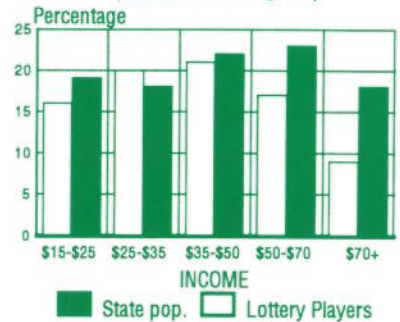
William Brooks, a railroad man from Blasdell in Western New York, was a \$4,000 "Grand Slam" winner in August 1993.

PLAYER PROFILES

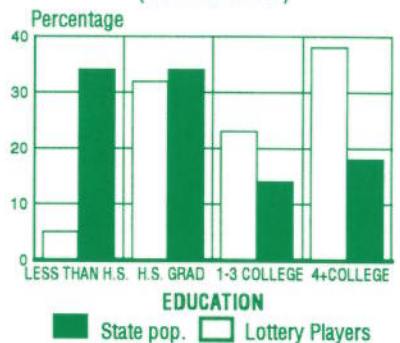
AGE



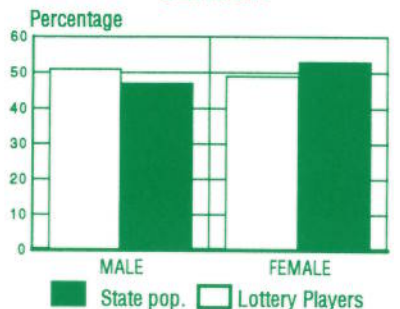
HOUSEHOLD INCOME (\$15,000 & Higher)



EDUCATION (25 and Older)



GENDER



Lottery Sales Agents

The New York Lottery is a successful partnership between government and private commerce. Certainly, the most



important members of this partnership are the 11,500 retailers who sell Lottery tickets. The 1993-94 business achievements would not have been possible without the commitment of these men and women who are on the front-line in the marketplace.

Using the New Technology

For the Lottery sales agents, 1993-94 was a year in which major

new technology and marketing changes would take place at the point of sale, offering customers new conveniences and retailers new tools to boost sales.

In preparation, some 8,000 on-line agents were trained in the use of the new on-line games sales terminal and its related systems. Later, all 11,500 sales agents attended one of the 400 seminars conducted at 35 sites across the state to receive hands-on training for the new INSTANT CASH games automatic prize validators and the new accounting and security system.

In short order, new equipment would be installed and improved gaming software would be mastered. Throughout this major restructuring, sales agents

provided invaluable feedback on how the new systems were performing in the marketplace.

With the transition finally completed, sales agents are now benefiting from the most sophisticated and efficient technology in the lottery industry.



Local Economies Benefit

Whether the corner store, supermarket, newsstand, candy store, convenience store, liquor store or local variety store, sales agent locations serve Lottery-playing New Yorkers.

The 6 percent commissions earned by sales agents on Lottery ticket sales help to enhance their local economies. During fiscal year 1993-94, Lottery sales agents earned \$142.1 million in commissions.



Lottery In The Media

New York Lottery advertising is often as much fun as playing the games for many people and the *Hey, you never know* campaign for LOTTO has proven to be an all-time favorite.

Best of the Best Advertising

Hey, you never know advertisements have received 71 national and international advertising awards, 43 in 1993 and 28 in 1994, including four of the prestigious, gold Clio awards. Most recently, the "Grand Andy" was awarded to the Lottery for the



world's single best television commercial of 1993. The Lottery's commercial -- "The Toll-Booth," was selected from 5,000 entries from 33 countries by a panel of the world's top creative talent at a judging in Amsterdam, the Netherlands in the spring of 1994.

Live Drawings on Local Television

Under exclusive agreements with the Lottery, nine network-affiliated local television stations throughout the state began airing live broadcasts of the NEW YORK NUMBERS, WIN 4, LOTTO and TAKE FIVE drawings. For the first time since the Lottery began televising its drawings, players in almost every area of the state can watch the live broadcasts every night of the week on a local

station, regardless of whether they are served by cable television.

Lottery Radio

Bringing news of a more general nature to New York State about its Lottery, the **Lottery News Network**, a two-minute radio show, airs on fifteen stations around the state on Wednesdays and Fridays. The program brings Lottery game information, winner interviews, news and trivia to thousands of listeners twice a week during morning and evening drive times. Its success has brought emulation by several other state lotteries.



NEW YORK
LOTTO
Hey, you never know.



NEW YORK
LOTTO
Hey, you never know.



NEW YORK
LOTTO
Hey, you never know.

The New York Lottery is a multi-game entertainment business that provides players with a choice of fun -- a variety of games with different styles of play, varying prize levels, and daily and semi-weekly drawings. Player conveniences such as QUICK PICK, subscriptions for LOTTO, INSTANT CASH games vending machines, and -- introduced in 1994 by the Lottery -- automatic INSTANT CASH prize validation enhance the enjoyment of playing, making it easy and exciting entertainment.

On-Line Games

Five Lottery games - LOTTO, PICK 10, NEW YORK NUMBERS, WIN 4 and TAKE FIVE - are run on the Lottery's on-line computer system. From the 8,000 on-line terminals at sales locations all across the state, this system routinely processes more than 43 million

transactions a week. During 1993-94, the entire on-line system was modernized and new, more versatile terminals installed. New terminals issue a convenient, variable length ticket which can accommodate several games and plays. The terminals have capabilities which will allow the Lottery to offer players a number of special game features and promotions and can offer customized, regional promotions.

The Lottery's on-line computer system not only collects and keeps track of players' transactions, but also calculates, in the hours immediately after each drawing, the prize amounts and numbers of winners in order to provide this data to sales agents and the public as soon as possible.

LOTTO

LOTTO is the multi-million dollar jackpot game where players select six numbers from a field of one through 54. To win the jackpot, which starts at more than \$2 million, players must match all six randomly-drawn numbers. Prizes are also awarded for matching five numbers, four numbers and three numbers plus the supplementary number. LOTTO drawings are held twice weekly, on Wednesday and Saturday.

TAKE FIVE

TAKE FIVE is a lotto-type pari-mutuel game introduced to complement LOTTO. Players choose five numbers from a field of one through 39. Cash prizes are awarded for matching five, four and three numbers, and a

NUMBERS

WIN 4

PICK 10

bonus "Free Play" ticket is awarded for matching just two numbers. Free Plays are "Quick Pick" tickets good for a subsequent TAKE FIVE drawing that must be collected within 45 days from a Lottery sales agent. With overall odds of 1 in 8.77, TAKE FIVE creates hundreds of thousands of winners for each drawing. TAKE FIVE drawings are held twice weekly, on Tuesday and Friday.

NEW YORK NUMBERS AND WIN 4

Players who enjoy the excitement of Lottery games on a daily basis play one of the two numbers-type games, each of which creates thousands of winners every week. NEW YORK NUMBERS, in which a three-digit number is drawn, awards prizes ranging from \$25 to \$500. WIN 4, in which a four-digit number is drawn,

awards prizes from \$100 to \$5,000. Both NEW YORK NUMBERS AND WIN 4 drawings are televised consecutively each evening.

PICK 10

Another daily game, PICK 10 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.

INSTANT CASH GAMES

New Yorkers who want instant results play INSTANT CASH games. Players rub off a latex coating on the tickets to see if they have won prizes which have ranged from \$1 to \$5,000, depending on the game.

Eight new INSTANT CASH games were introduced during the first 11 months of 1993-94. And, in the final month of the fiscal year, the Lottery marked the relaunch of an exciting new INSTANT CASH product line. On March 21, for the first-time ever, five totally-different, all-new INSTANT CASH games went on sale at the same time.



Lottery In The Community

Through local events and promotions, the New York Lottery projects a positive image and identity in hundreds of communities across the state.

In 1993-94, the Lottery took part in about 400 activities including fairs, festivals, and sports events as well as local radio and television promotions.

The New York State Fair is an annual event for the Lottery, as is its presence at many county fairs and community fairs such as Albany's "Tulip Festival," "Queens Day" in

Flushing Meadows, and the "A Taste of Buffalo" street fair. At the Lottery exhibits, event attendees may learn about the Lottery and its support for education as well as have a free chance to win a prize.

Co-Sponsored Promotions

Through co-sponsored sales promotions, the Lottery brought contests, giveaways, fun and enjoyment to Lottery players statewide. Many of these helped philanthropic organizations raise funds.

Co-promotions with newspapers included LOTTOLOOT II, a 1993-94 encore of a successful promotion conducted with the Daily News the year before. There were 17 winners of \$13,000 in prizes every week for nine weeks. All winners were eligible for the second-chance grand prize drawing.

The Lottery and New York-Long Island Newsday's LOTTO SCHOLAR DOLLARS awarded prizes valued at more than \$450,000 over eight weeks, including weekly \$25,000 scholarships and a grand-prize of a \$100,000 scholarship.

The Lottery helped raise funds for children's hospitals across the state through the Children's Miracle Network Telethon and donated LOTTO subscriptions for the fund-raising auctions of five Public Broadcasting Television stations.



Financial Section

Report of Independent Auditors



New York State Lottery

We have audited the accompanying statement of assets and liabilities of the New York State Lottery as of March 31, 1994, and the related statements of revenue and expenses, and cash flows for the year 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 audit. The financial statements of the New York State Lottery for the year ended March 31, 1993, were audited by other auditors whose report dated May 28, 1993, expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the 1994 financial statements referred to above present fairly, in all material respects, the assets and liabilities of the New York State Lottery at March 31, 1994, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Ernst & Young

May 25, 1994

Statements of Assets and Liabilities

For the Years ended March 31, 1994 and 1993 (in Thousands)

	1994	1993
Assets		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 94,365	\$ 141,766
Accounts receivable	36,743	47,051
Investments, at amortized cost (Note 3)	156,541	143,459
Total current assets	287,649	332,276
Long-term investments, at amortized cost (Note 3)	1,202,000	1,110,642
Equipment and leasehold improvements, net of accumulated depreciation and amortization (Note 4)	6,494	7,597
Total assets	\$ 1,496,143	\$ 1,450,515
Liabilities		
Current liabilities:		
Prizes payable (Note 5)	\$ 156,451	\$ 144,264
Unclaimed and future prizes	72,876	90,524
Due to education (Note 7)	25,914	68,755
Due to administration	6,825	7,835
Deferred revenue	9,934	8,801
Other payables	8,394	6,085
Total current liabilities	280,394	326,264
Long-term prizes payable (Note 5)	1,215,749	1,124,251
Commitments and contingencies (Note 11)		
Total liabilities	\$ 1,496,143	\$ 1,450,515

See accompanying notes.

Statements of Revenue and Expenses

For the Years ended March 31, 1994 and 1993 (in Thousands)

	1994	1993
Ticket sales	\$ 2,369,080	\$ 2,360,010
Less:		
Prizes	(1,107,476)	(1,101,760)
Agent commissions	(142,145)	(141,604)
Contractor fees	(50,579)	(56,933)
Gross profit on ticket sales	1,068,880	1,059,713
General and administrative expenses	(64,001)	(65,144)
Income from operations	1,004,879	994,569
Nonoperating revenue (expenses):		
Interest income	115,636	110,006
Interest expense - amortization of discount on prizes payable	(110,893)	(105,167)
Other, net	1,536	1,653
Total nonoperating revenue	6,279	6,492
Income earned and required allocation to education, net	\$ 1,011,158	\$ 1,001,061
Components of income earned (loss incurred) and required allocation to education, net:		
New York State	\$ 1,014,976	\$ 1,003,066
New York City (Note 1)	(3,818)	(2,005)
	\$ 1,011,158	\$ 1,001,061

See accompanying notes.

Statements of Cash Flows

For the Years ended March 31, 1994 and 1993 (in Thousands)

	1994	1993
Operating activities:		
Cash received from ticket sales	\$ 2,380,526	\$ 2,366,348
Cash payments for prizes	(1,132,308)	(1,092,255)
Cash payments for commissions and fees	(192,634)	(199,090)
Cash payments for general and administrative expenses	(60,673)	(68,010)
Net cash provided by operating activities	994,911	1,006,993
Investing activities:		
Proceeds from investment maturities	149,247	137,052
Proceeds from sale of investments	5,106	8,732
Purchases of investments	(147,321)	(149,811)
Interest on cash and cash equivalents	4,403	4,572
Net proceeds from swaps of investment securities	60	407
Other cash payments and receipts, net	1,200	514
Net cash provided by investing activities	12,695	1,466
Noncapital financing activities:		
Cash transfer to education	(1,053,999)	(962,195)
Capital financing activities:		
Cash payments for equipment and leasehold improvements	—	(2,171)
Principal payments on capital leases	(1,008)	(898)
Net cash used by capital financing activities	(1,008)	(3,069)
Net increase (decrease) in cash and cash equivalents	(47,401)	43,195
Cash and cash equivalents, beginning of year	141,766	98,571
Cash and cash equivalents, end of year	\$ 94,365	\$ 141,766
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ 1,004,879	\$ 994,569
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization	1,655	1,533
Change in operating assets and liabilities:		
Accounts receivable	10,295	(3,091)
Prizes payable	(7,208)	(4,132)
Unclaimed and future prizes	(17,648)	13,533
Due to administration	(1,010)	(4,254)
Deferred revenue	1,133	8,801
Other payables	2,815	34
Net cash provided by operating activities	\$ 994,911	\$ 1,006,993

See accompanying notes.

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 revenue and expenses for administration, aid to education, and prizes are reported in a Special Revenue Fund. Monies for prizes are transferred to a Lottery Agency Fund for payment of prizes as claims are filed. The accompanying financial statements include the accounts of both funds and are presented as an enterprise fund. 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 instant cash game (the City games) for sale only within the City of New York. The 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% of game sales. The law also has a hold harmless provision which

requires the City games to reimburse the Lottery for shortfalls in net revenue, as defined, resulting from other instant cash games administered by the Lottery in the City of New York not increasing at an annual rate of 5%. Shortfalls approximated \$4,012,000 and \$2,995,000 in fiscal years 1994 and 1993, respectively.

Revenue Recognition - On-line Games:

Revenue from ticket sales for Lotto, Take Five, Pick 10, New York Numbers and Win-4 games (on-line games) is recognized when the related drawing takes place. Revenue from subscription sales and other ticket sales for future drawings is recorded as deferred revenue.

Instant Cash Games: Revenue from completed instant cash 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 instant cash 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 cash game ticket contractor.

Commissions and Fees - Agents receive a commission of 6% based on the total tickets sold. Contractors receive a fee equal to a contractual percentage of the revenue generated through the respective network maintained by each contractor (see *Note 11*).

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% for the New York State Lottery instant cash games, 35% for New York Numbers, Win-4 and Pick 10, and 45% for Lotto and Take Five.

Notes To Financial Statements (continued)

■ Allocations of ticket sales revenue to New York City for educational purposes to be at least 35% for the New York City instant cash 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% for the New York State Lottery instant cash games, 50% for the New York Numbers, Win-4, Pick 10 and the New York City instant cash games, and 40% for Lotto and Take Five.

■ Allocations of ticket sales revenue from all games for the payment of lottery administration expenses (including agent commissions and contractor fees) not to exceed 15%. Any excess of the maximum allocation over administration expenses is allocated to education as is any related interest or other income. Such allocations amounted to approximately \$101,580,000 and \$92,337,000 for fiscal years 1994 and 1993, 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 Improvement - 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 revenue (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 amounted to approximately \$33,735,000 and \$33,774,000 for fiscal years 1994 and 1993, 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 years 1994 and 1993, such supplemental prizes were paid for Lotto and Take Five. Prior to this legislation, unclaimed prizes were allocated to education.

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 \$94,820,000 and \$141,712,000 at March 31, 1994 and 1993, 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 (overdraft) included in cash and cash equivalents related to sole custody accounts were \$(455,000) and \$54,000 for fiscal years 1994 and 1993, 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 1994 and 1993, approximately \$111,247,000 and \$105,492,000, respectively, of amortized discount was included in interest income.

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

	1994	1993
Maturity value	\$2,416,404	\$2,311,496
Less: unamortized discount	1,057,863	1,057,395
Total carrying value	1,358,541	1,254,101
Less: investments, maturing within one year	156,541	143,459
Long-term investments	\$1,202,000	\$1,110,642
Total market value	\$1,505,498	\$1,470,605

Maturities of the investments in each of the five fiscal years following March 31, 1994, and the total thereafter, are as follows (in thousands):

1995	\$	162,345
1996		162,349
1997		162,338
1998		162,509
1999		162,174
Thereafter		1,604,689
	\$	2,416,404

Notes To Financial Statements (continued)

The Lottery periodically enters into certain swap transactions whereby stripped government securities are swapped for other stripped government securities with substantially identical terms and characteristics. During fiscal year 1994, the face value of the securities swapped amounted to \$27,823,000 resulting in a gain of approximately \$60,000. This gain is included in nonoperating revenues in the caption "other, net".

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 described above are indicative of activity and positions held during the year.

4. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements as of March 31, are as follows (in thousands):

	1994	1993
Equipment (principally capital leases)	\$ 6,485	\$ 5,932
Leasehold improvements	4,526	4,526
	11,011	10,458
Less: accumulated depreciation and amortization	(4,517)	(2,861)
Equipment and leasehold improvements, net	\$6,494	\$7,597

The Lottery has entered into certain capital leases for computer equipment approximating \$5,378,000. Accumulated amortization for the capital leases approximated \$2,906,000 and \$1,955,000 for fiscal years 1994 and 1993, respectively.

5. PRIZES PAYABLE

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

	1994	1993
Total obligation	\$2,425,352	\$2,321,469
Less: unamortized discount	1,053,152	1,052,954
Total carrying amount	1,372,200	1,268,515
Less: prizes payable within one year	156,451	144,264
Long-term prizes payable	\$1,215,749	\$1,124,251

The amortized discount on the prizes payable is based on interest rates which range from 3.01% to 13.55% and reflect the interest rates earned by the investments held to fund the related liabilities. The amortization of discount is recorded as interest expense in the statements of revenue and expenses and amounted to \$110,893,000 and \$105,167,000 for fiscal years 1994 and 1993, respectively.

The aggregate amount of prizes payable due in each of the five fiscal years following March 31, 1994, and the total thereafter, is as follows (in thousands):

1995	\$ 162,207
1996	161,918
1997	161,918
1998	161,918
1999	161,918
Thereafter	1,615,473
	\$ 2,425,352

6. OPERATING SEGMENT INFORMATION

Operating segment information for fiscal 1994 and 1993 by type of lottery game is as follows (in thousands):

1994					
	Ticket Sales	Prizes	Agent Commissions	Contractor Fees	Gross Profit on Ticket Sales
Lotto	\$ 645,718	\$ (259,694)	\$ (38,744)	\$ (9,453)	\$ 337,827
Take Five	307,475	(123,333)	(18,448)	(4,775)	160,919
Pick 10	84,420	(42,304)	(5,065)	(1,307)	35,744
New York Numbers	658,141	(329,805)	(39,488)	(10,268)	278,580
Win-4	374,322	(187,579)	(22,459)	(5,817)	158,467
Instant Cash Games	298,478	(164,496)	(17,909)	(18,927)	97,146
City Games	526	(265)	(32)	(32)	197
	\$2,369,080	\$(1,107,476)	\$(142,145)	\$(50,579)	1,068,880
General and administrative expenses					(64,001)
Nonoperating revenue					6,279
Income earned and required allocation to education, net					\$1,011,158

Components of loss and required allocation to education for New York City of \$(3,818,000) in fiscal year 1994 are gross profit on the City Games of \$197,000 less general administration expenses of \$8,000 and nonoperating expenses (net) of \$4,007,000.

1993					
	Ticket Sales	Prizes	Agent Commissions	Contractor Fees	Gross Profit on Ticket Sales
Lotto	\$ 696,277	\$ (280,859)	\$ (41,777)	\$ (12,098)	\$ 361,543
Take Five	274,555				
		(110,170)	(16,477)	(4,973)	142,935
Pick 10	91,221	(45,726)	(5,473)	(1,658)	38,364
New York Numbers	652,271	(326,962)	(39,136)	(11,758)	274,415
Win-4	355,362	(178,131)	(21,322)	(6,414)	149,495
Instant Cash Games	287,613	(158,553)	(17,256)	(19,846)	91,958
City Games	2,711	(1,359)	(163)	(186)	1,003
	\$2,360,010	\$(1,101,760)	\$(141,604)	\$(56,933)	1,059,713
General and administrative expenses					(65,144)
Nonoperating revenue					6,492
Income earned and required allocation to education, net					\$ 1,001,061

Components of loss and required allocation to education for New York City of \$(2,005,000) in fiscal year 1993 are gross profit on the City Games of \$1,003,000 less general and administrative expenses of \$33,000

Notes To Financial Statements (continued)

7. Education

Income earned and required allocation to education during the fiscal years ended March 31, 1994 and 1993, are as follows (in thousands):

	1994	1993
Revenue transferred to education	\$1,053,999	\$ 962,195
Prior year payable	(68,755)	(29,889)
Amount transferred from current year revenue	985,244	932,306
Current year payable	25,914	68,755
Income earned and required allocation to education, net	\$1,011,158	\$1,001,061

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, 1994, was approximately \$8,298,000; the Lottery's total payroll was approximately \$8,462,000.

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, 1993 totaled approximately 804,282, including 269,323 retirees and beneficiaries currently receiving benefits and no longer working members entitled to benefits but not yet receiving them; 55,209 nonvested inactive members, and 479,750 current working members.

The contribution requirement for the year ended March 31, 1994, was \$428,872, which consisted of \$260,630 from the Lottery and \$168,242 from employees; these contributions represented 3.1% and 2.0% of covered payroll, respectively. The contribution requirement for the year ended March 31, 1993, was \$388,317, which consisted of \$237,524 from the Lottery and \$150,793 from employees; these contributions represented 3.1% and 2.0% 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, 1993, for the System as a whole, determined through an actuarial valuation performed as of that date, was \$46,481,000,000. The System's net assets available for benefits on that date (valued at market) were \$49,084,000,000 resulting in assets in excess of pension benefit obligation of \$2,603,000,000. The Lottery's 1993 contribution represented .1% 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 and other significant factors are presented in the System's March 31, 1993 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 the 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. POSTRETIREMENT BENEFITS

In addition to the pension benefits described in *Note 8*, the State provides health insurance

coverage and survivor benefits for retired employees and their survivors. Substantially all of the State's employees may become eligible for these benefits if they reach normal retirement age while working for the State. Health care benefits are provided through an insurance company whose premiums are based on the benefits paid during the year. The state recognizes the cost of providing health insurance by recording its share of insurance premiums as an expenditure in the general fund in the year paid. Additionally, the survivor's benefit program provides for a death benefit to be paid by the State to a retiree's designated beneficiary. The Lottery is not charged for these benefits to its former employees.

11. COMMITMENTS AND CONTINGENCIES

Contractual Arrangements: - The Lottery maintains an on-line gaming network of over 8,000 terminals. GTECH Corporation (GTECH) is responsible for operating the network under a contract expiring on February 28, 1999. Formerly, there were two parallel on-line networks, one operated by GTECH and the other by Automated Wagering International, Inc. (AWI). The current contract was awarded to GTECH following a competition conducted by the Lottery. AWI challenged the contract award in a lawsuit which was dismissed by the New York State Supreme Court on May 10, 1993. AWI then appealed to the Appellate Division of the Supreme Court, which twice rejected AWI's arguments, most recently on April 28, 1994. AWI has no appeal as of right to the Court of Appeals, the State's highest court, but AWI may seek special permission to appeal to that court. If AWI's litigation succeeds, the Lottery might be required to conduct a further procurement which could result in a new contract on less favorable terms than the GTECH contract. However, it is the opinion of management and in-house counsel that, whether or not the case is brought to the Court of Appeals, the contract award is likely to be affirmed.

Notes To Financial Statements (continued)

and the litigation will not have a material adverse effect on the financial position of the Lottery.

The Lottery maintains a network of more than 3,000 off-line locations where only instant cash games are sold. The network is supported by the services of three contractors: (1) Under a contract expiring January 31, 1997, Scientific Games, Inc. is responsible for maintaining validating devices installed at each sales location. (2) Under a contract expiring July 14, 1995, Dittler Brothers, Inc. is responsible for production of instant cash tickets. (3) Under a contract expiring January 13, 1997, GTECH is responsible for various services related to the warehousing, sales, distribution of, and accounting for, instant cash tickets. Instant cash tickets are also sold through vending machines at approximately 1,000 locations. A contract with Lottery Enterprises, Inc., expiring on July 14, 1996, provides for maintenance of the vending machines.

GTECH's fees are based on a percentage of ticket sales. All other gaming contractors are paid fees based on the units of service provided.

Capital and Operating Leases: - The Lottery has entered into certain capital lease obligations with the State of New York which are included in other payables. The leases require semi-annual payments approximating \$638,000, including interest of 6.60% and 5.11% (imputed interest remaining under these leases is approximately \$245,000 at March 31, 1994; \$365,000 at March 31, 1993). The leases expire in March 1996 and August 1998.

In addition the Lottery has entered into an operating lease for equipment requiring semi-annual payments of approximately \$565,000 through February 1999.

Insurance Contracts: - Prior to 1983, the Lottery had entered into agreements with New York insurance companies under which the Lottery purchased contracts that provide payments corresponding to the Lottery's obligation to the prize winners. The types of contracts entered into include agreements that pay installments for a specific term (investment contracts) as well as agreements to make installment payments to prize winners over the winners' lifetime. Because it is the intent of the Lottery that the insurance companies make future installment payments directly to each prize winner, the present value of the future payments under these contracts are not reflected in the accompanying financial statements. The Lottery may be liable for such future payments if the insurance companies were to default on their payments. Unpaid amounts under the investment contracts approximated \$84,000,000 at March 31, 1994, which have a fair value that approximates \$65,000,000. For contracts other than investment contracts, the insurance companies are making annual payments to sixty-five individuals totaling approximately \$1,200,000 as of March 31, 1994.

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.



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