

NEW YORK STATE LOTTERY  
1994-95 ANNUAL REPORT



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## **Executive Staff**

**Jeff Perlee**  
Director

**Russell V. Gladieux**  
Executive Deputy Director

**Daniel J. Coddin**  
Director of Operations and Sales

**Cornelia H. Laverty**  
Director of Marketing

**John R. McNulty**  
Director of Internal Audit

**Vincent J. Monitto**  
Director of Electronic Data Processing

**William J. Murray**  
Counsel

**Edward T. Rowan**  
Director of Security

**Henry L. Scott**  
Director of Administration

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**Michael Abbate**  
Regional Director, New York City

**William Lonczak**  
Regional Director, Central New York

**Charles O'Donnell**  
Regional Director, Southeast New York

**Diane Scala**  
Regional Director, Northeast New York

**New York State Lottery**  
**Main Office**  
One Broadway Center  
P.O. Box 7500  
Schenectady, New York 12301-7500  
518-388-3300

**New York City**  
**Regional Office**  
90 Maiden Lane  
New York, New York 10038  
212-383-1300

**Southeastern New York**  
**Regional Office**  
463 Willis Avenue  
Williston Park, New York 11596  
516-747-7700

**Northeastern New York**  
**Regional Office**  
One Broadway Center  
Suite 700  
Schenectady, NY 12305  
518-388-5420

**Central New York**  
**Regional Office**  
620 Erie Boulevard West  
Suite 112  
Syracuse, New York 13204-2442  
315-448-4300

**Western New York**  
**Regional Office**  
Ellicott Square Building  
295 Main Street, Suite 800  
Buffalo, New York 14203  
716-847-3469

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## DIRECTOR'S MESSAGE

Lottery sales for fiscal year 1994-95 were the best in New York Lottery history and once again New York was first in the nation in sales and earnings. Historic high sales of Instant Cash Game tickets and a Lotto jackpot driven record sales week generated \$3.029 billion in sales for the year, marking the first time any North American Lottery has exceeded \$3 billion in sales.

In fiscal year 1993-94, the previous year, Lottery management undertook a complete rebuilding of its technological and systems infrastructure designed to lay the foundation for growth far into the future. This forward planning coupled with a total revamping of its Instant Cash Game offerings and the implementation of a number of other improvements and innovations brought swift results. Fiscal year 1994-95 sales grew 28 percent and revenues grew 23 percent.

The benefits of the Lottery's success went far beyond aid to education, providing earnings to its partners in the private sector who reinvested sizeable portions of their Lottery earnings in jobs for New Yorkers and in taxes on their earnings.

While the new on-line game technology demonstrated its value within the Lottery from the beginning, dramatic proof of its effectiveness took place during the month of October 1994. When Lotto fever was spurred by a jackpot that grew to \$72.5 million, the new on-line system enabled retailers to process record numbers of transactions quickly and conveniently.

All who contributed to our best ever year have earned the right to be proud and pleased. We thank the people of New York State for their support and pledge continued commitment to meet their mandate to provide the revenue so needed for the education of our children.



Jeff Perlee





## 1994-95 BUSINESS HIGHLIGHTS

New York Lottery sales were more than \$3 billion for fiscal year 1994-95, making it the first in North America to eclipse the \$3 billion mark.

Lottery sales have nearly tripled in just ten years, having first topped \$1 billion in 1984-85. The \$2 billion level was reached five years ago. The record sales for this year resulted in record earnings of \$1.24 billion for education.

The New York Lottery continued to set the pace for all North American lotteries in sales and in earnings. The Lottery has been a sales leader in almost all of its 28 years through a constant effort to plan and innovate for its future. The sales performance of the past year gave testimony to the value of these efforts.

### **The Future Arrives Early**

As the fiscal year began, the Lottery completed the last in a series of improvements in technology, services and products initiated two years before. They were designed to support an expanded marketing effort for the year ahead and provide the foundation for growth well into the future.

Lottery improvements in 1993 had included a totally new on-line gaming system -- including computer mainframes, agent sales terminals, software, ticket stock and distribution -- completed at a savings to taxpayers of \$40 million over five years. Its fast and efficient sales terminal provides much more convenient service, quickly producing a multiple game ticket that keeps lines moving when play is heavy. And, the player has far fewer

Lotto, Take Five, Pick 10, New York Numbers and Win 4 game tickets to keep track of.

The future arrived early when after almost five years of stagnant, even slightly declining Lotto sales, the New York Lottery was able to reaffirm the power of the Lotto "dream" jackpot. The Lotto jackpot rose throughout the month of October 1994, reaching \$72.5 million on October 29. During that final week, the New York Lottery set a national and world one-week sales record of \$159,556,987 in all games. This provided an unanticipated, but well-appreciated, boost for 1994-95 Lottery sales.

During the October "Lotto fever," the new on-line games system was put to the test and passed with flying colors. Lottery agents were able to process about 60 million transactions through their terminals during the final week of sales. At the peak of activity, sales reached \$46,000 every minute. Average sales for the 8,000 full-service agents was \$20,113.

### **Investments Pay Off**

A universal, interactive Instant Cash ticket validation system was also in place as the year began. It includes "dial up" validation for agents selling only Instant Cash Games. Instant Cash Games also have a new telemarketing system that allows agents to use their terminals to place orders, guarantees overnight delivery and provides consignment billing. And, more than 1,500 new ticket outlets were added, including many popular supermarkets chains and convenience stores.

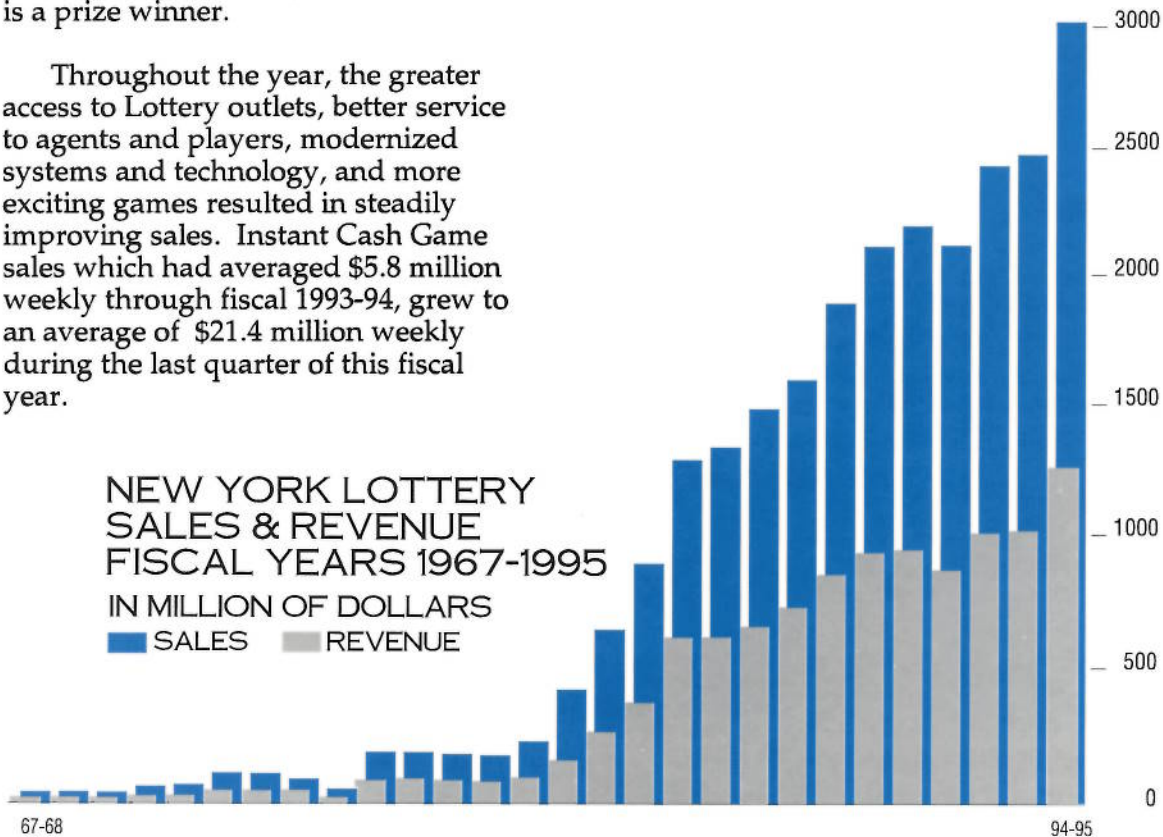
Players quickly found that Instant Cash Games were more abundant, more colorful, more interesting and more convenient to purchase. The new technology also gave them the convenience of being able to collect all Lottery game prizes of up to \$600 from any of the 11,700 licensed Lottery agents across the State. Under the old system, players had to return to the place of purchase to redeem an Instant Cash prize and the limit was \$100.

All agents are now equipped with interactive ticket validation systems that enables them to scan a bar code on the Instant Cash ticket after it has been played, to immediately determine if it is a prize winner.

Throughout the year, the greater access to Lottery outlets, better service to agents and players, modernized systems and technology, and more exciting games resulted in steadily improving sales. Instant Cash Game sales which had averaged \$5.8 million weekly through fiscal 1993-94, grew to an average of \$21.4 million weekly during the last quarter of this fiscal year.

As a result, Instant Cash Game sales expanded from \$299 million the previous year to \$666 million for 1994-95. This 123 percent increase provided a major boost to total fiscal year sales. Lotto achieved second place among the Lottery's games with a \$193 million increase, or nearly 30 percent, to \$839 million.

In 1994-95, New York Lottery sales for all games totaled \$3.029 billion, 27.8 percent more than the previous year. The \$1.24 billion earnings for education, were more than 23 percent higher than last year's contribution.





# LOTTERY SALES DOLLAR ALLOCATION

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

## Education Aid

The \$1.24 billion in education aid generated by the Lottery in 1994-95 represents about 41 percent of all Lottery sales. On average, the Lottery earned about \$3.4 million each day for the State's aid to local education fund.

## Prizes

Prizes totaling more than \$1.47 billion, representing approximately 48 percent of sales, were awarded to 145 million Lottery winners in fiscal year 1994-95.

## Operating Costs

The New York Lottery maintained its long-standing commitment to efficiency in 1994-95. 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 work force of 240 is among the most productive in the industry, with a 1994-95 ratio of more than \$12 million in sales achieved for each employee.

While State law allows up to 15 percent of yearly sales to be spent for operations, in 1994-95, the Lottery spent only 10.7 percent, or \$323 million, on all operating expenses,

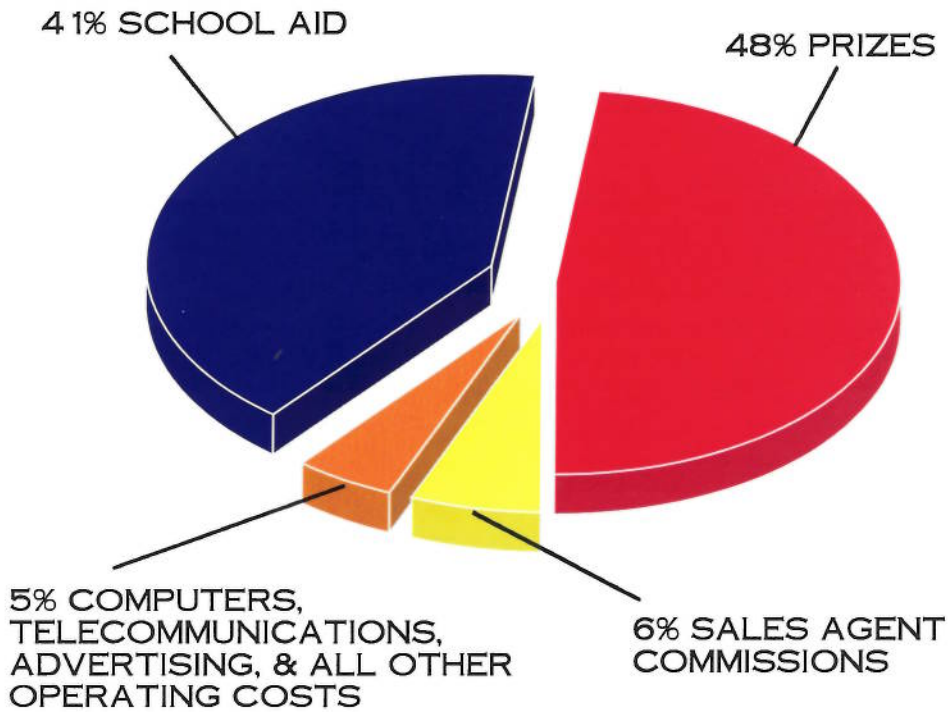
including sales agent commissions of 6 percent. The difference of 4.3 percent, or \$133 million (includes interest earned and miscellaneous income), was delivered to the State for education.

Lottery operating costs include sales agent commissions, contractor fees, such as those needed for operating and maintaining the on-line gaming system and the printing and distribution of Instant Cash Game tickets, and general administration.

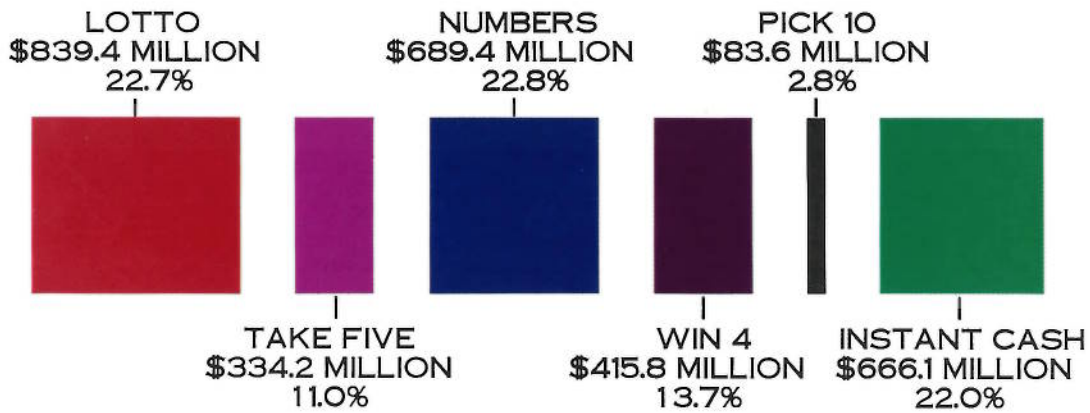
- Sales agent commissions at 6 percent of sales were \$182 million.
- Contractor fees accounted for 2.14 percent of sales, or \$65 million.
- Lottery administrative costs were 2.5 percent of sales, or \$76 million. These expenses included: \$19 million for telecommunications services supporting the on-line gaming network; \$23 million\* for advertising; \$8 million for Instant Cash Game printing; and, \$12 million for salaries and benefits. The remaining administrative costs include expenses for such things as supplies, equipment, and other needs associated with the Lottery's day-to-day operations.

\*Excludes contractor's share of advertising at \$18.5 million.

## 1994-95 LOTTERY SALES DOLLAR ALLOCATION



## 1994-95 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 1994-95, the Lottery earned \$1.24 billion for education. As required by law, these profits are deposited in the State's Lottery for Education Fund. The State Legislature appropriated \$1.16 billion from this fund as part of the 1994-95 State aid to local school districts. The remaining profit was carried over in the fund and will be part of the \$1.4 billion expected of the Lottery for school aid in 1995-96.

Lottery aid comprised 12.1 percent of the State's total aid to local schools in 1994-95.

This was the third successive year in which Lottery earnings for education have exceeded \$1 billion. From the Lottery's beginning in 1967, more than \$11 billion has been generated for education in New York State.

## **The Distribution and 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, \$15 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.

**NEW YORK LOTTERY AID TO EDUCATION  
BY COUNTY IN FISCAL YEAR 1994-95**

ALBANY	\$13,451,258.50	NEW YORK CITY*	\$344,661,473.50
ALLEGANY	\$5,910,856.89	ONEIDA	\$22,379,821.94
BROOME	\$17,282,515.58	ONONDAGA	\$39,566,227.53
CATTARAUGUS	\$11,348,385.34	ONTARIO	\$8,964,263.46
CAYUGA	\$7,560,515.38	ORANGE	\$24,362,170.79
CHAUTAUQUA	\$15,470,928.93	ORLEANS	\$5,139,906.16
CHEMUNG	\$9,055,682.61	OSWEGO	\$12,994,420.97
CHENANGO	\$6,465,143.37	OTSEGO	\$5,349,445.13
CLINTON	\$ 8,480,043.63	PUTNAM	\$2,946,573.14
COLUMBIA	\$ 3,520,991.24	RENSSELAER	\$11,967,152.16
CORTLAND	\$ 5,019,745.41	ROCKLAND	\$8,969,744.89
DELAWARE	\$ 3,881,625.77	SARATOGA	\$16,149,732.55
DUTCHESS	\$13,919,634.34	SCHENECTADY	\$9,251,361.48
ERIE	\$72,336,948.96	SCHOHARIE	\$3,135,439.64
ESSEX	\$1,687,501.05	SCHUYLER	\$1,673,321.44
FRANKLIN	\$5,341,051.72	SENECA	\$3,019,068.37
FULTON	\$5,916,920.44	ST LAWRENCE	\$12,280,931.17
GENESEE	\$6,565,519.98	STEBUBEN	\$12,055,309.13
GREENE	\$2,552,397.32	SUFFOLK	\$75,583,620.73
HAMILTON	\$47,495.00	SULLIVAN	\$4,202,527.71
HERKIMER	\$7,358,110.16	TIOGA	\$ 6,309,260.01
JEFFERSON	\$11,552,795.80	TOMPKINS	\$6,180,467.65
LEWIS	\$3,374,199.03	ULSTER	\$9,075,245.31
LIVINGSTON	\$5,967,252.67	WARREN	\$4,388,826.33
MADISON	\$7,173,173.06	WASHINGTON	\$6,275,848.02
MONROE	\$52,666,670.89	WAYNE	\$10,608,518.64
MONTGOMERY	\$4,968,190.57	WESTCHESTER	\$17,939,206.22
NASSAU	\$31,972,904.36	WYOMING	\$3,834,093.27
NIAGARA	\$20,434,314.49	YATES	\$1,433,240.06

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



# LOTTERY WINNERS

## 145 Million Winners

Players from all over the State are Lottery winners. Last year more than \$1.47 billion was won by holders of 145 million winning tickets. That's an average of more than a dozen winning tickets for each New York adult over the age of 18.

The Lottery added 69 new winners to the millionaires' club, bringing the total number of millionaires created in the 28 years of the Lottery to 1,098. Thirteen of 1994-95's millionaires earned their club membership by winning the top prize in the Instant Cash Game, Win For Life, which pays \$1,000 a week for life and guarantees receiving at least \$1 million.

### Lotto Jackpot Winners include:

Four who shared the record \$72.5 million jackpot of Saturday, October 29, 1994:

Fred Jacobs of Galway, Saratoga County whose mother had to remind him to check the Lotto tickets he purchased when she heard that the Galway Market, his agent, had sold one of the four winning tickets worth more than \$18 million each.



Al Herrala of Newfield, who worked for Cornell University in Ithaca.

Zdzislaw (Jeffrey) Wojtowicz who came to New York City just 13 years ago from Poland.

And, the Arias Family Trust of Mrs. Margarita Arias of Long Island City.

## PLAYER SURVEY HIGHLIGHTS

From an annual Lottery market research survey conducted statewide among households with incomes of \$15,000 or more, the current player profile includes these highlights:

- 53% women, 47% men
- 67% within the ages of 25-54 with an average age of 43
- \$49,850 average household income
- 95% completed high school with 63% going on to college

### Other "Dream Prize" Winners include:

James Maher of Windham, the third Lotto jackpot winner in two weeks to purchase a winning ticket at a Stewart's Ice Cream shop. He was a \$3 million winner.

The KEM Eight, a group of eight ladies employed by the KEM Playing Card Company in Poughkeepsie who shared an \$11.5 million jackpot.

Sean Egan of Commack, Long Island, who had just about given up on the numbers he played for so many years when they finally paid off \$7.5 million.





**Take Five First Prize Winners include:**

**Marlene Benbynek** of Lancaster, one of three winners of \$94,895 each on July 12, 1994.

On August 2, 1994, **Angela Norris** of Dobbs Ferry was one of eight winners of \$36,549 each.



**Sharon Van Benschoten** thought it was wonderful when she heard someone from her hometown had won \$57,525 in the August 23 Take Five drawing. She really thought it was great when she found out it was she.

**Rollin Downey** of Suffern broke the record for a Take Five first prize when he won \$338,848 in time to spend it for the holidays in December.

**Pick 10 Half-million Dollar Winners were:**

**Edward DeLucia** of Staten Island who picked the right ten numbers on the ticket he purchased at the Del Campo Deli for the April 2, 1994 drawing.

**Jennifer Rogienski** of Elmont who was a \$500,000 winner on November 23, 1994.

**Among the record number of Instant Cash Game Winners in 1994-95:**

**John Brown** of Porter Corners won \$1,000 in "New York Gold" in April 1994 and **Deborah Cech** of Plattsburgh was a \$1,000 winner in "Pay Day" in May 1994.

**Joe Sisto** of North Syracuse and **Jeanette Slover** of Cheektowaga were \$1,000 "Instant Casino" winners in July 1994.

When the holiday season was in full swing, the \$10,000 top prize for "Stocking Stuffer" was won by **George Crego** of Rome who said it would pay for some of the presents "under the tree" as well as in the stockings.

In October 1994, **Eduardo and Jennifer Jarret** of the Bronx were one of the first winners of \$1,000 a week for life in the "Win For Life" Instant Cash Game. There would be twelve "life-time" winners in the unique new game in fiscal year 1994-95, and they came from all over New York State.



The exciting new Instant Cash Game, "Bingo," had many \$10,000 winners including **Kim Bennett** of Utica, **Donna Denué** of South Glens Falls, **Alice Petrosillo** of Merrick, **Shirley Winder** of Hamburg, and **Mary Hogue** of Manhattan. Introduced in January 1995, Bingo had 72 \$10,000-winners in this fiscal year.

## 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 11,700 retailers who sell Lottery tickets. The 1994-95 business

achievements would not have been possible without the commitment of these men and women who are on the front-line in the marketplace.

### More New Technology

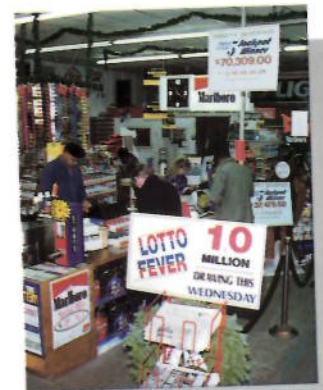
At the beginning of 1994, the more than 8,000 full-service Lottery agents completed training in the use of new Instant Cash Game technology integrated into on-line sales terminals statewide. These new features improve agent management of Instant Cash Game tickets, accounting, security and, most importantly, validation of winning tickets. For the first time agents are able to pay Instant Cash Game prizes up to \$600, regardless of the place of purchase, a tremendous improvement in customer service.



The more than 3,000 agents who sell only Instant Cash Games are equipped with an independent validation unit that enables them to perform the same automated prize validation function over telephone lines.

All agents are now able to order tickets through a new telemarketing system with a guarantee of receiving their orders on the following day. An additional improvement is the introduction of "hassle free" ordering which automatically delivers at least four books

of tickets for each new Instant Cash Game upon launch to enrolled agents. More than half of the agent network is participating in this program. Full-service agents can also order tickets through their terminals.





## Local Economies Benefit

Whether the corner store, supermarket, newsstand, candy store, convenience store, liquor store or local variety store, sales agent locations serving New Yorkers earned more than \$181 million in commissions.



Sales agent commissions grew more than 27 percent for 1994-95 over the previous year. This is the largest dollar increase in New York Lottery history. The 6 percent commissions earned by local businesses contribute to the economic health of every community in the State.





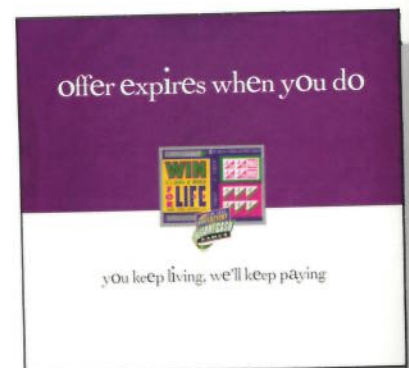
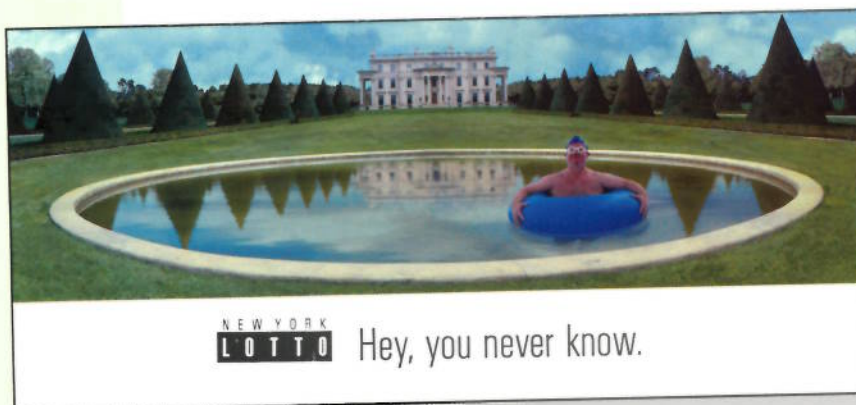
## LOTTERY IN THE MEDIA

New York Lottery advertising continues to be as popular and fun as playing Lottery games. The "Hey, you never know" campaign for Lotto is still the biggest award winner. The television commercial with the Lottery spokesman, "Ralph," announcing the latest jackpot atop the World Trade Center and the life size retail display of him showing the jackpot are well recognized across the State. Advertising for Win for Life, Bingo and other Instant Cash Games is adding to the success of these efforts.

### Advertising Campaign Tops in the World

The Lottery's advertising campaign is not only entertaining and appealing to New Yorkers, it is one of the most recognized in the advertising field. The "Hey, you never know" advertisements have garnered 81 national and international awards, 43 in 1993, 26 in 1994 and 12 in 1995.

In addition, Lottery advertising dominated the North American Association of State and Provincial Lotteries annual awards winning seven medals, including the prestigious Best of the Batch for the billboard execution, "Pool," as the best lottery ad overall.



## Live Drawings on Local Television

Local television stations throughout New York State continue to carry live broadcasts of the New York Numbers, Win 4, Lotto and Take Five drawings. For a second year, players in just about every area of the State were able to watch the live broadcasts every night of the week on their local station, whether or not they are served by cable television.



## Television Technology Brings Jackpot News

When Lotto fever struck the State in October 1994, the television satellite technology used for the nightly drawing broadcasts enabled the Lottery to get out the word almost immediately as the jackpot grew and grew. When the four winners who shared the \$72.5 million were identified, satellite feeds brought their press conferences to television newsrooms across the State, introducing the winners to players and fans at the moment of their joy in winning.

## Lottery Radio

News of a more general nature is the subject of the broadcasts of the Lottery News Network, a two-minute radio show in its third year. Carried by 14 radio stations around the State on Wednesdays and Fridays during drive times, the programs cover Lottery game information, stories about winners, interviews, news and lottery trivia.





## LOTTERY GAMES

The New York Lottery is a multi-game entertainment business that provides players with 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 -- automatic Instant Cash Games prize validation introduced in 1994 by the Lottery -- enhance the enjoyment of playing, making it easy and exciting entertainment.

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 more than 8,000 on-line terminals at sales locations all across the State, this system routinely processes more than 43 million transactions a week.

### 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, 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. Since December 1994, Lotto jackpots start at \$3 million Wednesdays and \$4 million Saturdays, rolling to \$6 million and \$10 million in subsequent draws.

### 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 bonus "Free Play" ticket 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 on Tuesday and Friday.

### NUMBERS

Players who enjoy the excitement of Lottery games on a daily basis play one of the two numbers-type games. New York Numbers, in which a three-digit number is drawn, awards prizes ranging from \$25 to \$500.

### WIN 4

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. The Lottery draws 20 numbers nightly. Winners receive prizes for matching 10, 9, 8, 7, 6, even zero of the numbers drawn.





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 range from \$1 to millions, depending on the game.

During the 1994-95 fiscal year players would have a choice of 24 different Instant Cash Games to choose from, 13 of them brand new games introduced during the year. At any given time, up to 15 totally different games in play style, look and prize structure could be purchased at 11,700 licensed retail Lottery outlets throughout the State.

There were Instant Cash Game styles and play options never before seen by New York State Lottery players on sale:



“Win For Life” offers players the chance to learn at the moment they scratch off the covering of the ticket if they were winners of a top prize of \$1,000 a week for life with a guarantee of receiving at least \$1 million.



“Bingo” is an extended play game that simulates traditional bingo by matching “caller card” numbers to those on four “player cards.” Winners on this \$2 ticket can receive prizes up to \$10,000.



During the holiday season, “Stocking Stuffer,” a stocking-shaped die cut ticket, was introduced as the first of a series of specialty “niche” game designed for special events, holidays or select customer groups.

## LOTTERY IN THE COMMUNITY

Recognized in every community statewide, the New York Lottery projects a strong positive image through active participation in and support of local events.

During fiscal year 1994-95, the Lottery participated in more than 325 events and promotions, such as fairs, sports events, festivals, and local radio, television, and newspaper promotions.

By co-sponsoring sales promotions with media partners, major grocery chains and convenience stores the Lottery created contests, fun and enjoyment for players in every hometown around the State.

The Lottery was part of more than 35 county and street fairs and festivals such as the Erie County Fair, the Lilac Festival in Rochester, the two-week long New York State Fair in Syracuse, Albany's Tulip Festival and Brooklyn's Fabulous Fifth Avenue Street Fair. These events provide the public with an opportunity to learn about the Lottery and its support for education.



Other promotional events were conducted with major sports organizations such as the New York Rangers during the Stanley Cup finals at Madison Square Garden. A three-way promotion with the New York Post and the New York Knicks, "Instant Replay," offered over \$350,000 in prizes, including weekly Instant Cash Game tickets, Knick jackets, tickets to Knicks home games, and a grand prize of \$150,000 in cash.



Donations of tickets and Lotto subscriptions to the Children's Miracle Network telethon and the five local Public Broadcasting Television fundraising auctions exemplify the Lottery's efforts to support philanthropic organizations.



# FINANCIAL SECTION



74 North Pearl Street  
Albany, ny 12207

## Independent Auditors' Report

### New York State Lottery

We have audited the accompanying statement of assets and liabilities of the New York State Lottery as of March 31, 1995, and the related statements of revenue and expenses, and cash flows for the year then ended. These financial statements are the responsibility of the New York State Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying financial statements of the New York State Lottery as of March 31, 1994, were audited by other auditors whose report thereon dated May 25, 1994, 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 1995 financial statements referred to above present fairly, in all material respects, the financial position of the New York State Lottery at March 31, 1995, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

*KPMG Peat Marwick LLP*

May 26, 1995

**Statements of Assets and Liabilities**  
 March 31, 1995 and 1994 *(In Thousands)*

	1995	1994
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 157,657	94,365
Accounts receivable	102,422	36,743
Investments, at amortized cost (Note 3)	173,749	156,541
Instant game ticket inventory	4,565	-
Total current assets	438,393	287,649
Long-term investments, at amortized cost (Note 3)	1,320,572	1,202,000
Equipment and leasehold improvements, net of accumulated depreciation and amortization (Note 4)	4,847	6,494
Total assets	\$ 1,763,812	1,496,143
<b>Liabilities</b>		
Current liabilities:		
Prizes payable (Note 5)	173,231	156,451
Unclaimed and future prizes	110,128	72,876
Due to education (Note 7)	107,882	25,914
Due to administration	7,108	6,825
Deferred revenue	10,709	9,934
Other payables	18,053	8,394
Total current liabilities	427,111	280,394
Long-term prizes payable (Note 5)	1,336,701	1,215,749
Commitments and contingencies (Note 11)		
Total liabilities	\$ 1,763,812	1,496,143

See accompanying notes to financial statements.



## Statements of Revenue and Expenses

Years Ended March 31, 1995 and 1994 *(In Thousands)*

	1995	1994
Ticket sales	\$ 3,028,585	2,369,080
Less:		
Prizes	(1,470,635)	(1,107,476)
Agent commissions	(181,725)	(142,145)
Contractor fees	(64,948)	(50,579)
Instant game ticket printing expense	(7,915)	-
Gross profit on ticket sales	1,303,362	1,068,880
General and administrative expenses	(68,198)	(64,001)
Income from operations	1,235,164	1,004,879
Nonoperating revenue (expenses):		
Interest income	121,877	115,636
Interest expense - amortization of discount on prizes payable	(117,314)	(110,893)
Other, net	4,090	1,536
Total nonoperating revenue	8,653	6,279
Income earned and required allocation to education, net	\$ 1,243,817	1,011,158
Components of income earned (loss incurred) and required allocation to education, net:		
New York State	1,243,815	1,014,976
New York City (Note 1)	2	(3,818)
	\$ 1,243,817	1,011,158

See accompanying notes to financial statements.

## Statements of Cash Flows

Years Ended March 31, 1995 and 1994 *(In Thousands)*

	1995	1994
<b>Cash flows from operating activities:</b>		
Cash received from ticket sales	\$ 2,963,875	2,380,526
Cash payments for prizes	(1,413,235)	(1,132,308)
Cash payments for commissions and fees	(246,788)	(192,634)
Cash payments for ticket printing	(10,613)	-
Cash payments for general and administrative expenses	(63,209)	(60,673)
<b>Net cash provided by operating activities</b>	<b>1,230,030</b>	<b>994,911</b>
<b>Cash flows from investing activities:</b>		
Proceeds from investment maturities	162,822	149,247
Proceeds from sale of investments	-	5,106
Purchases of investments	(174,643)	(147,321)
Interest on cash and cash equivalents	4,202	4,403
Net proceeds from swaps of investment securities	2,513	60
Other cash payments and receipts, net	1,374	1,200
<b>Net cash provided (used) by investing activities</b>	<b>(3,732)</b>	<b>12,695</b>
<b>Cash flows from noncapital financing activities:</b>		
Cash transfer to education	(1,161,849)	(1,053,999)
<b>Cash flows from capital financing activities:</b>		
Cash payments for equipment and leasehold improvements	(31)	-
Principal payments on capital leases	(1,126)	(1,008)
<b>Net cash used by capital financing activities</b>	<b>(1,157)</b>	<b>(1,008)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>63,292</b>	<b>(47,401)</b>
Cash and cash equivalents, beginning of year	94,365	141,766
<b>Cash and cash equivalents, end of year</b>	<b>\$ 157,657</b>	<b>94,365</b>
<b>Reconciliation of income from operations to net cash provided by operating activities:</b>		
Income from operations	1,235,164	1,004,879
<b>Adjustments to reconcile income from operations to net cash provided by operating activities:</b>		
Depreciation and amortization	1,688	1,655
<b>Change in operating assets and liabilities:</b>		
Accounts receivable	(65,505)	10,295
Prizes payable	20,418	(7,208)
Unclaimed and future prizes	37,252	(17,648)
Ticket inventory	(4,565)	-
Due to administration	283	(1,010)
Deferred revenue	775	1,133
Other payables	4,520	2,815
<b>Net cash provided by operating activities</b>	<b>\$ 1,230,030</b>	<b>994,911</b>



## 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 administers the City games and is 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 short falls 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 \$0 and \$4,012,000 in fiscal years 1995 and 1994, respectively.

#### (a) Revenue Recognition

##### (i) 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.

##### (ii) Instant Cash Games

Revenue from instant cash games is recognized based on the dollar value of the total number of tickets available for sale. Tickets are available for sale upon being activated on the Lottery Validation System at the agent locations.

#### (b) Commissions and Fees

Agents receive a commission of 6% based on the total tickets sold. The on-line game contractor receives a fee equal to a contractual percentage of the revenue generated through the respective network maintained by the contractor. All other gaming contractors are paid fees based on the units of service provided (see note 11).

## Notes to Financial Statements (continued)

### (c) 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. For Take Five, the allocation was changed to 35% in 1995 from 45% in 1994.
- 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. For Take Five, the allocation was changed to 50% in 1995 from 40% in 1994.
- 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 \$133,182,000 and \$101,580,000 for fiscal years 1995 and 1994, 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.

### (d) 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.

### (e) 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.

### (f) Inventory

During 1995 the Lottery purchased instant game tickets directly from printers and have included tickets which have not been activated for resale in inventory. Inventories purchased for resale are valued at cost by game determined under the first-in, first-out (FIFO) accounting method. Tickets are charged to printing expense when activated for resale by the agents. At the conclusion of an instant cash ticket game unsold inventory is charged as a nonoperating expense.

### (g) 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 revenue (expenses) in the period of disposal.

**(h) 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.

**(i) Unclaimed and Future Prizes**

Prizes unclaimed for one year after the drawing date are forfeited by the ticket holder. Total prizes forfeited amounted to approximately \$27,916,000 and \$33,735,000 for fiscal years 1995 and 1994, respectively.

Legislation passed in June 1991, allows the Lottery to retain forfeited prizes and to use such amounts for payment of supplemental prizes in subsequent Lottery games. During fiscal year 1995, such supplemental prizes were paid for Lotto, New York Numbers, and Win-4; and during fiscal year 1994, such supplemental prizes were paid for Lotto and Take Five.

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 account for prizes earns interest through participation in a short-term investment pool administered by the State Comptroller. The account for administration earned such interest until June 1994 when the criteria for earning interest was changed by new legislation. The carrying and market value of the account included in cash and cash equivalents were \$158,104,000 and \$94,820,000 at March 31, 1995 and 1994, 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. The Lottery manages the investment of its cash balances to minimize its uninvested funds. At March 31, 1995 and 1994 the amount of outstanding checks in excess of bank balances included in cash and cash equivalents related to the sole custody accounts were (\$447,000) and (\$455,000), respectively.

The Lottery's deposits are collateralized under a program administered by the Office of the State Comptroller of the State of New York. 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.

## Notes to Financial Statements (continued)

### 3. Investments

The Lottery is authorized to invest in U.S. Government-backed obligations (zero coupon bonds), which will provide for the payment of prizes payable (see note 5). During fiscal years 1995 and 1994, approximately \$117,696,000 and \$111,247,000, respectively, of amortized discount was included in interest income.

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

	1995	1994
Maturity value	\$ 2,622,184	2,416,404
Less: unamortized discount	1,127,863	1,057,863
Total carrying value	1,494,321	1,358,541
Less: investments, maturing within one year	173,749	156,541
Long-term investments	\$ 1,320,572	1,202,000
Total market value	\$ 1,594,142	1,505,498

Maturities of the investments in each of the five fiscal years following March 31, 1995, and the total thereafter, are as follows (in thousands):

1996	\$ 180,328
1997	180,449
1998	180,620
1999	180,283
2000	180,391
Thereafter	1,720,113
	\$ 2,622,184

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 years 1995 and 1994, the face value of the securities swapped amounted to \$859,881,000 and \$27,823,000 resulting in a gain of approximately \$2,513,000 and \$60,000, respectively. This gain is included in nonoperating revenue 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):

	1995	1994
Equipment (principally capital leases)	\$ 6,527	6,485
Leasehold improvements	4,526	4,526
	11,053	11,011
Less: accumulated depreciation and amortization	(6,206)	(4,517)
Equipment and leasehold improvements, net	\$ 4,847	6,494

The Lottery has entered into certain capital leases for computer equipment approximating \$5,378,000. Accumulated amortization for the capital leases approximated \$3,889,000 and \$2,906,000 for fiscal years 1995 and 1994, respectively.

#### 5. Prizes Payable

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

	1995	1994
Total obligation	\$ 2,635,786	2,425,352
Less: unamortized discount	1,125,854	1,053,152
Total carrying amount	1,509,932	1,372,200
Less: prizes payable within one year	173,231	156,451
Long-term prizes payable	\$ 1,336,701	1,215,749

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 \$117,314,000 and \$110,893,000 for fiscal years 1995 and 1994, respectively.

The aggregate amount of prizes payable due in each of the five fiscal years following March 31, 1995, and the total thereafter, is as follows (in thousands):

1996	\$ 179,685
1997	179,685
1998	180,000
1999	180,000
2000	180,000
Thereafter	1,736,416
	\$ 2,635,786

Notes to Financial Statements (continued)

6. Operating Segment Information

Operating segment information for fiscal 1995 and 1994 by type of lottery game is as follows (in thousands):

1995						
	Ticket Sales	Prizes	Agent Commissions	Contractor Fees	Instant Cash Game Ticket Expense	Gross Profit on Ticket Sales
Lotto	\$ 839,375	(339,777)	(50,372)	(12,543)	-	436,683
Take Five	334,232	(167,565)	(20,054)	(5,097)	-	141,516
Pick 10	83,608	(41,917)	(5,017)	(1,275)	-	35,399
New York Numbers	689,374	(345,614)	(41,362)	(10,513)	-	291,885
Win-4	415,847	(208,482)	(24,951)	(6,342)	-	176,072
Instant Cash Games	666,145	(367,275)	(39,969)	(29,178)	(7,915)	221,808
City Games	4	(5)	-	-	-	(1)
	\$ 3,028,585	(1,470,635)	(181,725)	(64,948)	(7,915)	1,303,362
General and administrative expenses						(68,198)
Nonoperating revenue						8,653
Income earned and required allocation to education, net						\$ 1,243,817
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



## 7. Education

Income earned and required allocation to education during the fiscal years ended March 31, 1995 and 1994, are as follows (in thousands):

	1995	1994
Revenue transferred to education	\$ 1,161,849	1,053,999
Prior year payable	(25,914)	(68,755)
Amount transferred from current year revenue	1,135,935	985,244
Current year payable	107,882	25,914
Income earned and required allocation to education, net	\$ 1,243,817	1,011,158

## 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, 1995, was approximately \$9,059,000; the Lottery's total payroll was approximately \$9,278,000.

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. 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, 1994 totaled approximately 805,049, including 270,902 retirees and beneficiaries currently receiving benefits and members no longer working and entitled to benefits but not yet receiving them; 47,662 nonvested inactive members, and 486,485 current working members.

The contribution requirement for the year ended March 31, 1995, was \$566,000, which consisted of \$376,000 from the Lottery and \$190,000 from employees; these contributions represented 4.1% and 2.0% of covered payroll, respectively. 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 "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, 1994, for the System as a whole, determined through an actuarial valuation performed as of that date, was \$49,879,000,000. The System's net assets available for benefits on that date (valued at market) were \$50,835,000,000 resulting in assets in excess of pension benefit obligation of \$956,000,000.



## Notes to Financial Statements (continued)

The Lottery's 1994 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, 1994 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 directly charged for these benefits to its former employees.

### 11. Commitments and Contingencies

#### (a) Contractual Arrangements

The Lottery maintains a gaming network of over 8,300 on-line locations where all games are sold and over 3,000 off-line locations which sell only instant cash game tickets. GTECH Corporation (GTECH) is responsible for operating the on-line games under a contract expiring on February 28, 1999. Instant cash game sales are supported by the services of four 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, 1996, 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.



- (4) 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.

**(b) 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 \$97,000 at March 31, 1995; \$245,000 at March 31, 1994). The leases expire in March 1996 and August 1998.

In addition the Lottery has entered into operating leases for equipment and building space. Rental expense was \$3,973,000 and \$1,904,000 in 1995 and 1994, respectively.

The following is a schedule of future minimum lease payments under noncancellable operating leases having initial or remaining terms in excess of one year as of March 31, 1995:

Fiscal Year	Operating Leases
1996	\$ 4,844,000
1997	4,373,000
1998	3,953,000
1999	3,939,000
2000	2,024,000
Thereafter	-
Total minimum lease payments	\$ 19,133,000

**(c) 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 \$73,000,000 at March 31, 1995, which have a fair value that approximates \$59,000,000. For contracts other than investment contracts, the insurance companies are making annual payments to approximately 65 individuals totaling approximately \$1,200,000 as of March 31, 1995.

**(d) 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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