NEW YORK LOTTERY

An Enterprise Fund of the State of New York

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended March 31, 2012

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Prepared by

Financial Management Unit

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INTRODUCTORY SECTION

September 28, 2012

To readers of the New York Lottery's Comprehensive Annual Financial Report:

We are pleased to present the Comprehensive Annual Financial Report of the New York Lottery for the fiscal year ended March 31, 2012. This report has been prepared by the Financial Management Unit of the New York Lottery. The New York Lottery is responsible for the accuracy and fairness of all information included in this report. To the best of our knowledge, the report presents fairly in all material respects the financial position of the Lottery and the results of its operations for the period covered.

The report is presented in three sections: Introductory, Financial, and Statistical. The Introductory Section contains this transmittal letter, which provides an overview of the Lottery and its annual report, and the Lottery's organizational chart which lists principal officials and their respective positions within the agency. The Financial Section contains the Lottery's basic financial statements, the notes to the statements, and the independent auditor's report. It also includes Management's Discussion and Analysis which is supplementary information to the statements and offers readers a general overview and analysis of the Lottery's financial position and activities for the years covered by the statements. The Statistical Section includes certain financial, economic, and demographic data for the New York Lottery over the last 10 years or as many years as are available.

The New York Lottery was established in 1967 as a result of a constitutional amendment. It is currently administered by the Division of the Lottery, an independent unit of the Department of Taxation and Finance. It is operated in accordance with provisions of the New York State Lottery for Education Law (Tax Law Article 34). The mission of the Lottery is to raise revenue for education in the State of New York through the administration of lottery games.

The Lottery is included within the financial reporting entity of the State of New York as an enterprise fund. This report represents only the financial position and activities of the Lottery and not the corresponding financial position and activities of the State of New York.

History of the New York Lottery

In November 1966, a Constitutional Amendment was approved by 61% of New York voters to establish the New York Lottery. Subsequently, Article 1, Section 9 of the Constitution of the State of New York was adopted to allow lotteries operated by the State, with net proceeds to be applied in aid of education. New York was the second state, behind New Hampshire, to conduct Lottery sales. A lottery commission was established as a division of the Department of Taxation and Finance and the first lottery ticket was sold in New York in June 1967.

Administrative responsibilities for the Lottery were later transferred to the New York State Racing and Wagering Board. The Lottery was then reconstituted in 1976, and the Division of the Lottery was established as an independent division of the State Department of Taxation and Finance. Instant ticket sales resumed under this "new" Lottery in September 1976.

In November 1978, a popular European game called "Lotto" was introduced in New York with an initial jackpot of $250,000. The new game steadily gained in popularity until a computerized or "online" system of play was introduced in 1980 and the excitement of "Lottomania" began in New York. That was followed by the introduction of the Daily Numbers three-digit game in September 1980 and the Win 4 four-digit game in 1981. These staple games kicked off a period of unprecedented growth in New York Lottery sales.

In 1987 a Keno game called "Pick 10" was introduced, followed in January 1992 by the addition of Take Five – a pari-mutuel game with a smaller, but more winnable jackpot than Lotto. At the beginning of 1994, new instant game technology was integrated into online sales terminals statewide. These new features improved management of instant game tickets, accounting, security, and validation. For the first time, Lottery retailers were able to pay prizes regardless of the place of purchase, order tickets through a telemarketing system, and receive "hassle-free" automatic shipments of all new instant game launches. As a result, instant game sales increased from $298 million in 1994 to over $1 billion by 1997.

In 1995, legislation authorized the implementation of Quick Draw, a monitor game offering more play options and prizes than Pick 10. Quick Draw sales commenced in September 1995 at social environment locations throughout the State.

Following the terrorist attacks on the World Trade Center in 2001, the State Legislature permitted New York's entry into a multi-jurisdictional lottery game and authorized video lottery gaming at certain pari-mutuel racetracks. Joining a multi-state lottery game was the shorter term project with the Lottery and the Ohio Lottery joining the participants of The Big Game and forming the Mega Millions multi-jurisdictional game in May 2002.

Video lottery gaming was a major effort and it was January 2004 before the New York Lottery opened the doors of the first video lottery gaming facility in the State. Video lottery gaming terminals operate as electronic lottery games allowing multiple players to compete for prizes awarded as a result of random drawings. Results are secured within the centrally located

monitoring and control system. Video gaming facilities are now operational at nine racetracks throughout the State.

In September 2009, the Lottery launched Sweet Million, a draw game featuring a one million dollar jackpot prize. The introduction of this game was a response to consistent requests from players for a game with multiple jackpot winners, not just a single winner of a big jackpot. Sweet Million offers players the best odds of winning a one million dollar prize.

In 2009 the Mega Millions consortium began discussions with the Multi-State Lottery Association (MUSL), the administrators of the national Powerball game, to cross sell each other's games. The member states of each consortium subsequently ratified an agreement that authorized the New York Lottery to join the multi-state Powerball game and sales commenced in January 2010. The addition of this 2nd multi-state game allows the Lottery to offer New Yorkers the largest jackpot games four days per week.

Traditional Lottery Games

The New York Lottery offers players the chance to participate in many various draw and instant games through a retailer network of approximately 17,000 retailers. Current offerings include nine draw games, as well as the introduction of approximately 30 new instant games each year. The wide variety of Lottery games offer different methods of play, ranges of jackpot prizes, and convenience aspects that make playing the games fun, easy, and exciting entertainment.

MEGA MILLIONS is a multi-jurisdictional game in which the New York Lottery participates with California, Georgia, Illinois, Massachusetts, Maryland, Michigan, New Jersey, Ohio, Texas, Virginia, Washington, and the Multi-State Lottery Association (Powerball). Players choose five numbers from a pool of 56 and one number from a pool of 46 numbers. A player wins the jackpot by matching all six winning numbers drawn. Smaller prizes ranging from $2 to $250,000 can be won by matching one to five numbers. Players can select to receive the jackpot in annual installments or in one lump sum payment. Tickets cost one dollar and drawings are held twice per week, every Tuesday and Friday. Mega Millions is also available by subscription. A **Megaplier** feature gives players a chance to increase their non-jackpot prizes.

POWERBALL is a multi-jurisdictional game in which the New York Lottery participates with most other Mega Millions member states and the Multi-State Lottery Association member lotteries. Players choose five numbers from a pool of 59 and one number from a pool of 35 numbers. A player wins the jackpot by matching all six winning numbers drawn. Smaller prizes ranging from $4 to $1,000,000 can be won by matching one to five numbers. Players can select to receive the jackpot in annual installments or in one lump sum payment. Tickets cost two dollars and drawings are held twice per week, every Wednesday and Saturday. A **Power Play** multiplier feature gives players a chance to increase their non-jackpot prizes.

LOTTO is played by choosing six numbers from a pool of 59 and is still played for two games for one dollar. A player wins the jackpot by matching all six winning numbers drawn, but can also win other prizes by matching at least three winning numbers. Players can select to receive the jackpot in annual installments or in one lump sum payment. Drawings are held twice per week, every Wednesday and Saturday. Lotto is also available by subscription.

SWEET MILLION is played by choosing six numbers from a pool of 40. A player wins the jackpot of $1 million by matching all six winning numbers drawn, but can also win other prizes by matching at least three of the winning numbers. Tickets cost one dollar and drawings are held twice per week, every Monday and Thursday. This game was launched in FY 2009-10.

NUMBERS is played by choosing a three-digit number. A player wins prizes ranging from $25 to $500 by matching the winning numbers drawn. Wagers begin at fifty cents and drawings are held twice per day. **Lucky Sum** is an added feature that allows **Numbers** players to win additional prizes by matching the sum of the player's numbers to the sum of the winning numbers drawn for an extra one dollar wager. An **Instant Win** feature also allows players to win up to $500 instantly for an additional one dollar wager by matching their numbers to a set of numbers randomly generated at the point of sale terminal.

WIN 4 is played by choosing a four-digit number. A player wins prizes ranging from $25 to $5,000 by matching the winning numbers drawn. Wagers begin at fifty cents and drawings are held twice per day. **Lucky Sum** is an added feature that allows Win 4 players to win additional prizes by matching the sum of the player's numbers to the sum of the winning numbers drawn for an extra one dollar wager. An **Instant Win** feature also allows players to win up to $500 instantly for an additional one dollar wager by matching their Win 4 numbers to a set of numbers randomly generated at the point of sale terminal.

TAKE FIVE is played by choosing five numbers from a pool of 39. A player wins the jackpot by matching all five winning numbers drawn, but can also win other prizes by matching at least two of the winning numbers. Tickets cost one dollar and drawings are held every night.

PICK 10 is played by choosing 10 numbers from a pool of 80. A player wins the jackpot of $500,000 if all 10 of their numbers are included among 20 winning numbers drawn by the Lottery. Wagers begin at one dollar. Other prizes can also be won by matching six, seven, eight, nine, or none of the winning numbers drawn. Drawings are held every night.

QUICK DRAW is played by choosing one to 10 numbers from a pool of 80. A player wins prizes ranging from $1 to $100,000 based on how many numbers they match to the 20 winning numbers drawn by the Lottery. Wagers begin at one dollar. An **Extra** multiplier feature gives players a chance to increase their prize. As of August 1, 2010 drawings are held every four minutes on a daily basis except for the half-hour from 3:30 to 4:00 AM.

INSTANT GAMES are played by scratching a covering from pre-printed tickets to reveal prizes. There are a large variety of games and price points available for sale at any given time.

Video Lottery Gaming

On January 28, 2004, the New York Lottery commenced video lottery gaming operations with the opening of Saratoga Gaming & Raceway in Saratoga Springs. Since that date, the Lottery has opened eight additional video gaming facilities across the State. As of March 31, 2012, these nine facilities operate a statewide total of approximately 17,000 video lottery terminals.

Video lottery gaming had been conducted 16 hours per day at each gaming facility but legislation effective August 11, 2010 allows an additional four hours per day. The games utilize a central determinant system that draws winners from a centralized finite prize pool, similar to the administration of an instant scratch off game. By statute, video lottery games must pay out a minimum of 90% in prizes.

Resorts World Casino New York City is located at Aqueduct Racetrack in Jamaica. Owned by the State of New York and operated by Genting NY, LLC, Resorts World Casino opened on October 28, 2011, and currently operates approximately 5,000 video gaming machines.

Empire City Casino at Yonkers Raceway is located in Yonkers. Owned and operated by Yonkers Racing Corp, Empire City Casino opened on October 11, 2006, and currently operates approximately 5,000 video gaming machines.

Saratoga Casino & Raceway is located in Saratoga Springs. Owned and operated by Saratoga Harness Racing Inc, Saratoga Casino & Raceway opened on January 28, 2004, and currently operates 1,778 video gaming machines.

Monticello Casino & Raceway is located in Monticello. Owned and operated by Empire Resorts, Monticello Casino & Raceway opened on June 30, 2004, and currently operates 1,110 video gaming machines.

Finger Lakes Casino & Racetrack is located in Farmington. Owned and operated by Delaware North Inc, Finger Lakes Casino & Racetrack opened on Feb 18, 2004, and currently operates 1,191 video gaming machines.

Hamburg Casino at the Fairgrounds is located on the Fairgrounds in Hamburg, near Buffalo. Owned by the Erie County Agricultural Society and operated by Delaware North Inc, Hamburg Casino opened on March 17, 2004, and currently operates 940 video gaming machines.

Vernon Downs Casino is located in Vernon. Owned and operated by American Racing & Entertainment LLC, Vernon Downs Casino opened on October 26, 2006, and currently operates 767 video gaming machines.

Tioga Downs Casino is located in Nichols. Owned and operated by American Racing & Entertainment LLC, Tioga Downs Casino opened on July 4, 2006, and currently operates 802 video gaming machines.

Batavia Downs Casino is located in Batavia. Owned and operated by Western Regional Off-Track Betting Corporation, Batavia Downs Casino opened on May 18, 2005, and currently operates 640 video gaming machines.

New York Economic Outlook

As of June, 2012, New York's unemployment rate was 9.1%. This was up 1.1% from the 8.0% unemployment in June 2011. Over 883,000 are unemployed from a work force of approximately 9.7 million. The five year history of New York State unemployment rates are listed in the following table.

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ann Avg
2012	9.1%	9.2%	8.7%	8.1%	8.6%	9.1%							
2011	8.9%	8.7%	8.0%	7.6%	7.8%	8.0%	8.0%	7.7%	7.8%	7.7%	7.9%	8.0%	8.0%
2010	9.6%	9.5%	9.1%	8.5%	8.3%	8.4%	8.6%	8.3%	8.2%	8.0%	8.2%	8.0%	8.6%
2009	7.7%	8.3%	8.2%	7.8%	8.1%	8.6%	8.8%	8.6%	8.7%	8.7%	8.5%	8.8%	8.4%
2008	5.3%	5.0%	5.0%	4.5%	4.8%	5.0%	5.4%	5.5%	5.5%	5.5%	5.9%	6.6%	5.3%

New York is currently above the national unemployment rate, which dropped from 9.3% a year ago to 8.4% in June 2012. New York's population decreased from 19.54 million in 2009 to 19.38 million in 2010. All unemployment figures above were provided by the New York State Department of Labor.

High unemployment will continue to challenge Lottery sales in the coming year. As a mature lottery, the New York Lottery expects only incremental growth in most of the traditional lottery games. The potential for higher growth is in jackpot-driven games like Mega Millions and Powerball, during intervals when jackpots roll to higher levels. The Lottery also expects to see continued growth in video gaming as eight video lottery gaming facilities continue to mature and a ninth facility, which opened at Aqueduct Racetrack in the last quarter of 2011, experiences its first full year of operation.

As part of the Lottery's long-term financial planning, the Lottery routinely prepares sales and profit projections and assists the New York State Division of the Budget in preparing Lottery revenue estimates to be used in the State's five-year financial plan.

Accomplishments

- In the fiscal year ended March 31, 2012, New York Lottery revenues reached $8.439 billion while net profit earned for aid to education reached $2.888 billion. This revenue was a record-setting amount, not only for the New York Lottery but a North American revenue record as well. The success was shared by a wide range of Lottery products. Compared to the previous year, traditional draw game sales were up by 6.9% while video gaming increased by a remarkable 28.6%, primarily due to the opening of a new gaming facility at Aqueduct Racetrack.

- The opening of Resorts World Casino New York City at Aqueduct Racetrack on October 28, 2011 was the culmination of a long, arduous process, but the grand opening did not disappoint. During the opening weekend, over 50,000 visitors flocked to the new casino which featured nearly 2,300 video lottery terminals (VLT's) and 200 electronic table games (ETG's). In December 2011 an additional 2,100 VLT's and 400 ETG's were

installed bringing the total to 5,000 games on the floor. Net win to date at the facility has exceeded expectations.

- Powerball game changes were implemented in February 2012 to create larger jackpots and enhance overall game sales. The game redesign includes a $2.00 price point, starting jackpots of $40 million and increased lower level prizes.

- The Lottery, as well as other State agencies, converted their financial data to a new Statewide Financial System (SFS) that will allow a single, enterprise-wide accounting and financial management system. This modern enterprise resource planning (ERP) system was built with the goal of enabling the State of New York to perform its fiscal and business management tasks more effectively, transparently and efficiently than ever before. The SFS facilitates the management and flow of information between and among State agencies, State control agencies (the Division of the Budget and the Office of the State Comptroller), the State Legislature, vendors doing business with New York State, and the general public.

Future Projects

- On March 30, 2012, New York enacted Chapter 60 of the Laws of 2012, creating the New York State Gaming Commission. This legislation merges the New York State Division of the Lottery with the New York State Racing and Wagering Board into a single oversight entity. The New York State Gaming Commission will supervise four divisions to carry out responsibilities relating to the regulation and enforcement of gaming activity:

    1. Division of Lottery
    2. Charitable Gaming
    3. Gaming (including Indian gaming and Video Lottery gaming)
    4. Horse racing and pari-mutuel wagering

  This legislation is pending presentation to the governor for signature and is expected to become effective February 1, 2013.

- A revision to the video gaming legislation has extended for one year the Capital Award provision that was set to expire April 1, 2013. This will allow most video lottery gaming facilities an additional year to construct capital projects that will enhance video gaming revenues and attendance. Some planned improvements include a facility expansion and construction of a porte cochere at Empire City Casino Yonkers Raceway; construction of a hotel, parking garage, and convention center at Tioga Downs Casino; an expansion of the gaming floor (adding 250 VLTs) and construction of a meeting and events center at Finger Lakes Casino & Racetrack; and renovations at Batavia Downs Casino to move the casino floor from the second floor to the first floor with an additional 140 VLT's.

- Due to growing demand for ETG's at video gaming facilities, the Lottery expects to increase the number of ETG's from the current total of 870 to approximately 1,180 by November 2012.

- Discussions and progress continues with the MUSL group on a launch of the multi-state wide area progressive game, Mega Hits, at New York's video gaming facilities in fiscal year 2012-13.

- In August 2012, the Lottery expects to launch a pilot program to sell draw game and instant game tickets via iPads in waiting areas of LaGuardia International Airport in New York City. iPads currently installed at LaGuardia for customers to order food or drink, or simply surf the web, will now feature the capability to order Lottery tickets. The pilot will consist of approximately 2,000 seats in these waiting areas.

- The Lottery will continue development and refinement of its subscription and internet wagering platforms.

- The Lottery will be increasing the market penetration of its Quick Draw game in 2012-13 by bringing the game to more of its retailers.

- In coordination with its online vendor, Gtech, the Lottery implemented a new self-service prize redemption feature on point of sale terminals like the Gemini and Gamepoint. The self-service feature allows customers to redeem prizes up to $25 and use those credits to purchase additional draw game or instant game tickets without retailer intervention.

Financial Information

Internal Controls

Lottery management is responsible for designing and maintaining a system of internal controls to safeguard assets and ensure accurate financial information. All managers conduct annual internal control reviews within their units. During these reviews, controls are documented, evaluated, and tested. The Lottery's Internal Audit Unit regularly reviews and evaluates all activities of the Lottery from an internal control perspective and issues reports to management recommending improvements to the system of internal controls as necessary.

Beyond these internal reviews, the Lottery's financial statements are audited on an annual basis by a certified public accounting firm. As a State agency, the Lottery is also subject to periodic audits by the Office of the State Comptroller.

Budgetary Controls

New York State law limits administrative expenditures on Lottery operations to 15% of traditional lottery game sales and 10% of video lottery gaming net win. In addition, the legislature sets appropriation limits in the annual State budget which establish maximum amounts that can be spent on administrative costs other than sales-based agent commissions and

vendor fees. Payment of expenditures is made through the Office of the State Comptroller which verifies compliance with budgetary appropriations. Historically the New York Lottery has efficiently controlled spending well below its statutory limit, allowing for unused administration funds to be transferred to the education account as surplus. For the year ended March 31, 2012, administrative surplus amounted to $425.7 million.

Debt Administration

The Lottery's long-term liabilities consist primarily of installment payments due to winners of lottery jackpots. This debt is funded by United States government securities and New York City municipal bonds whose interest payments and maturities are timed to correspond with payments due to prize winners. As of March 31, 2012, the accrued value of the Lottery's installment prizes payable was $1.478 billion, with $171.1 million payable within one year and $1.306 billion classified as long-term.

Financial Policy Changes

There were no financial policy changes during the year ended March 31, 2012.

Risk Management

On March 31, 2012, the Lottery maintained accounts receivable of $469.7 million. The majority of this receivable is sales revenue due to be collected after the close of the fiscal year. To ensure these receivables are collected on a timely basis, payment terms have been minimized. Video gaming receipts are collected two business days after the gaming day. Online game receipts are collected four days after the end of a sales week. Instant game receipts are collected within 45 days from the activation of a book of tickets. All collections are made by electronic transfer. In the event of default, all retailers and video lottery gaming facilities are bonded. Delinquent retailer debts are certified to the Civil Recoveries Bureau of the State Attorney General's office for collection.

Independent Audit

The New York Lottery's annual financial statements are audited by a certified public accounting firm. The statements include pertinent footnotes and Management's Discussion and Analysis. The statements for the year ended March 31, 2012 were audited by KPMG LLP. The auditors report and the financial statements are included in the Financial Section of this report.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the New York Lottery for its comprehensive annual financial report for the fiscal year ended March 31, 2011. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the requirements of the Certificate of Achievement Program, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

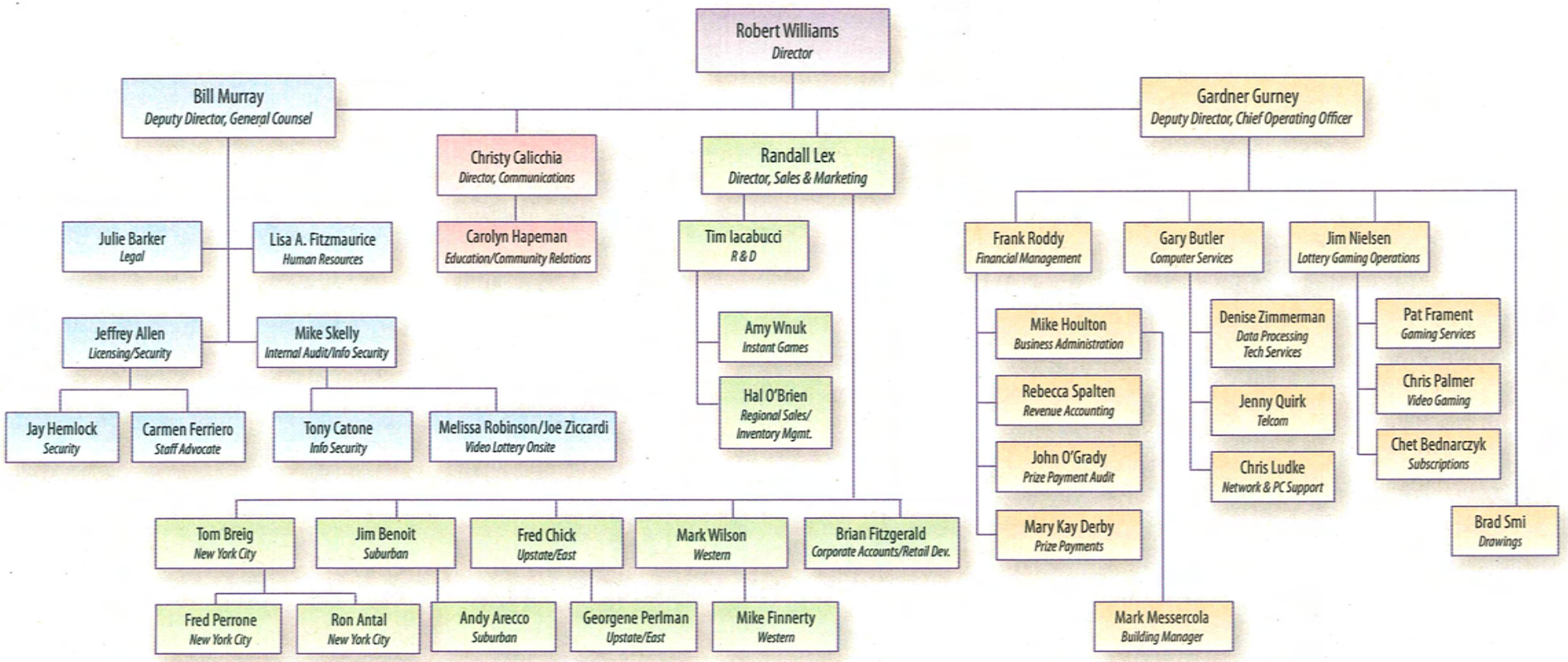
This Comprehensive Annual Financial Report reflects our continued commitment to maintain the highest standards of public accountability and to maintain the public trust through accounting transparency. Preparation of this report could not have been accomplished without the efforts and dedication of the entire Financial Management Unit.

Respectfully submitted,

Frank L. Roddy Jr
Administrative Officer, CFO

Gardner S. Gurney
Deputy Director, COO

Robert Williams
Director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Tony Catone
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August 2012

Certificate of Achievement for Excellence in Financial Reporting

Presented to

New York Lottery

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
March 31, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

Linda C. Davidson

President

Jeffrey P. Esser

Executive Director

FINANCIAL SECTION

KPMG LLP
515 Broadway
Albany, NY 12207-2974

Independent Auditors' Report

New York State Lottery:

We have audited the accompanying statements of net assets of the New York State Lottery (Lottery) as of March 31, 2012 and 2011, and the related statements of revenue, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Lottery's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1, the financial statements of the New York State Lottery are intended to present the financial position, and changes in financial position and cash flows, of only that portion of the financial reporting entity of the State of New York that is attributable to the transactions of the Lottery. They do not purport to, and do not, present fairly the financial position of the State of New York as of March 31, 2012 and 2011, the changes in financial position or its cash flows, where applicable, for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the New York State Lottery as of March 31, 2012 and 2011, and changes in net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 2 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by U.S. generally accepted accounting principles who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

June 25, 2012

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

The management of the New York State Lottery (New York Lottery or Lottery) offers readers the following general overview and analysis of the New York Lottery's financial position and activities for the fiscal year ending March 31, 2012 and 2011. We encourage readers to consider this information in conjunction with the detailed financial statements and explanatory notes that follow. The New York Lottery's basic financial statements for the fiscal years ending March 31, 2012 and 2011 have been prepared in accordance with U.S. generally accepted accounting principles.

Financial Highlights

- New York Lottery revenues totaled $8.439 billion, the largest total ever for the Lottery, while net proceeds earned for Lottery Aid to Education reached $2.888 billion for fiscal year 2012.
- New York Lottery revenues in fiscal year 2012 surpassed the revenues of 2011 by $571.3 million or 7.3%. In fiscal year 2011, the annual revenue increase was $49.9 million or 0.6%.
- Net proceeds earned for Lottery Aid to Education in fiscal year 2012 were less than the net proceeds of 2011 by $161.2 million or 5.3%. Comparatively, the annual earnings for education in fiscal year 2011 were more than 2010 by $382.8 million or 14.4%. The decrease in 2012 compared to 2011 was primarily due to a $380 million licensing fee paid to the Lottery in 2011 by the winning bidder to operate the Aqueduct video gaming facility.
- Prize expense increased by $162.7 million or 4.1% during fiscal year 2012. Prize expense increased by $16.5 million or 0.4% during fiscal year 2011. Prize expense generally follows the changes occurring in traditional sales which in 2012 increased by 3.8%.
- Operating income increased by $231.6 million or 8.6% during fiscal year 2012. Operating income increased by $19.3 million or 0.7% during fiscal year 2011.
- Nonoperating income decreased by $273.8 million during fiscal year 2012. Nonoperating income increased by $513.9 million during fiscal year 2011. The changes in this category are generally the result of unrealized gains/losses on investments. The 2012 decrease however was primarily the result of being compared to 2011 which contained a $380 million licensing fee received for the right to operate the Aqueduct video gaming facility.
- Working Capital (current assets minus current liabilities) increased to $231.8 million at the end of fiscal year 2012. This was an increase of $94.2 million or 68.5% compared to fiscal year 2011. The primary reason for the increase is that current liabilities included $134.6 million in jackpots won but not yet paid at the end of 2011 while the corresponding amount was only $7.5 million at the end of 2012. At the end of fiscal year 2011, working capital was $137.6 million. This was an increase of $28.2 million or 25.8% compared to fiscal year 2010.

(Continued)

Overview of Financial Statements

The New York Lottery presents its financial statements using the accrual basis of accounting, which is comparable to the method used by many private sector businesses. The accrual basis recognizes revenues when earned, not when received. Likewise, expenses are recognized when incurred, not when paid. The Lottery prepares the following three financial statements for fiscal years 2012 and 2011.

Statements of Net Assets

The statement on page 9 provides information on the nature and amount of the Lottery's assets, liabilities and net assets at the close of fiscal years 2012 and 2011. The relationship of assets to liabilities and resulting net assets is one indicator of the financial condition of the Lottery and can also be a reflection of changes within the Lottery.

Statements of Revenue, Expenses, and Changes in Net Assets

The statement on page 10 reflects the Lottery's operating and nonoperating revenues and expenses and the change in net assets for the year.

Statements of Cash Flows

The comparative statement on page 11 is presented on the direct method of reporting and reflects cash flows from operating activities as well as capital and noncapital financing and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash and cash equivalents for the year.

The above mentioned financial statements, the notes and this management discussion and analysis provide information about the Lottery's overall financial condition.

This management discussion and analysis is meant to be an introduction to the financial statements and to assist readers in understanding the results of the operation and the financial condition of the New York Lottery. The notes to the financial statements are an integral part of the statements and include additional data and explanations which are to be used in concert with the financial statements.

The New York Lottery deposits its net proceeds into six accounts held in joint custody by the Commissioner of Taxation and Finance and the State Comptroller. These six accounts and the purpose of the funds are as follows:

- Lottery Education Account – Accumulates the required deposits for Aid to Education from revenues, not including video gaming revenues.
- Prize Pending Account – Consists of Lottery prizes that have not yet been paid from revenues, excluding video gaming revenues.
- Administration Account – Utilized to pay for the Lottery's administrative costs that are not related to or funded by video gaming revenues.
- Video Gaming Education Account – Accumulates the required deposits for Aid to Education from video gaming operations.
- Video Gaming Prize Pending Account – Consists of video gaming prizes awarded that have not yet been claimed.

(Continued)

- Video Gaming Administration Account – Utilized to pay the administrative costs of video gaming.

Financial Analysis

Summary of Net Assets

The comparative summary of net assets represents the Lottery's financial position as of the fiscal years ended for 2012, 2011, and 2010 (in millions):

	FY 2012	FY 2011	FY 2010	FY 2012 vs. FY 2011 Dollar change	FY 2012 vs. FY 2011 Percent change	FY 2011 vs. FY 2010 Dollar change	FY 2011 vs. FY 2010 Percent change
Capital assets	$ —	2	4	(2)	(100.0)%	$ (2)	(50.0)%
Other assets	2,449	2,318	2,064	131	5.7	254	12.3
Total assets	2,449	2,320	2,068	129	5.6	252	12.2
Current liabilities	770	851	631	(81)	(9.5)	220	34.9
Noncurrent liabilities	1,307	1,258	1,268	49	3.9	(10)	(0.8)
Total liabilities	2,077	2,109	1,899	(32)	(1.5)	210	11.1
Restricted net assets	141	105	79	36	34.3	26	32.9
Unrestricted net assets	230	106	90	124	117.0	16	17.8
Total net assets	$ 371	211	169	160	75.8	$ 42	24.9

Capital Assets

Capital assets consist of equipment and leasehold improvements. During fiscal year 2012 and 2011, there were no significant changes in capital assets. Activity was primarily limited to yearly depreciation. Additional information about the Lottery's capital assets can be found in note 1h of the notes to the basic financial statements.

Other Assets

Other assets consist of cash and cash equivalents, accounts receivable, instant ticket inventory, and investments. During fiscal year 2012, other assets increased by $130.3 million which represented a change of 5.6% from the previous year. This increase was a net result of increases to cash and investments offset by a decrease in receivables. In fiscal year 2011 other assets increased by $254.3 million, or 12.3%.

Current Liabilities

Current liabilities consist of prizes awarded in the past year that remain unclaimed, amounts due to education, accrued expenses, accounts payable, the value of Lottery tickets purchased in advance of game drawings (deferred ticket sales), and the short-term portion of long-term prizes payable, capitalized leases, and amounts due to employees for unused vacation leave. In total, these accounts decreased by $80.5 million during fiscal year 2012. This change can be compared to the fiscal year ended March 31, 2011 when there was a $219.1 million annual increase in total current liabilities.

(Continued)

Noncurrent Liabilities

Noncurrent liabilities consist of amounts due to be paid more than one year after the close of the fiscal year for installment prizes, unused employee vacation leave, and capitalized leases. During fiscal year 2012, noncurrent liabilities increased by $48.6 million, with the increase occurring primarily in the category of long-term prizes payable. During fiscal year 2011, noncurrent liabilities decreased by $8.9 million with the change again being driven primarily by the change in long-term prizes payable. Additional information about the Lottery's noncurrent liabilities can be found in note 5 of the notes to the basic financial statements.

Net Assets

Restricted net assets for future prizes consist of prize funds that are in excess of prizes actually claimed at the fiscal year end, but which are necessary to ensure future prize payments. For example, prize funds from past sales are utilized to pay an accumulating or future New York Lotto, Powerball, or Mega Millions jackpot or contribute toward a created but unclaimed instant ticket prize. These amounts are available by statute for this purpose.

Net assets invested in capital assets are the amounts recorded as capital assets less the amounts of related debt. During fiscal years 2012, 2011, and 2010, capital assets were $0.04 million, $1.7 million and $4.0 million, respectively, while related debt was $0.0 million, $1.8 million and $3.9 million.

Unrestricted net assets listed on the statement of net assets are largely the cumulative result of increased fair market value of the investments held by the Lottery to pay annuity prizes. Since the full maturity value of the investments is needed to pay the annuity prizes, the Lottery does not expect to realize any permanent gain on these investments.

(Continued)

Summary of Revenue, Expenses, and Changes in Net Assets

The following summary compares the Lottery's operating revenues, expenses and changes in net assets for the fiscal years 2012, 2011 and 2010 (in millions).

				FY 2012 vs. FY 2011		FY 2011 vs. FY 2010	
	FY 2012	FY 2011	FY 2010	Dollar change	Percent change	Dollar change	Percent change
Operating revenue:							
Lottery revenue, net	$ 8,439	7,868	7,818	571	7.3%	$ 50	0.6%
Operating expenses:							
Direct expenses	(5,386)	(5,038)	(5,013)	(348)	6.9	(25)	0.5
Indirect expenses	(130)	(139)	(133)	9	(6.5)	(6)	4.5
Total operating expenses	(5,516)	(5,177)	(5,146)	(339)	6.5	(31)	0.6
Operating income	2,923	2,691	2,672	232	8.6	19	0.7
Nonoperating income (expenses)							
Nonoperating income	197	473	(40)	(276)	(58.4)	513	(1,282.5)
Nonoperating expenses	(71)	(74)	(75)	3	(4.1)	1	(1.3)
Total nonoperating income (expenses)	126	399	(115)	(273)	(68.4)	514	(447.0)
Income before required allocation	3,049	3,090	2,557	(41)	(1.3)	533	20.8
Required allocation – contribution for aid to education	(2,888)	(3,049)	(2,666)	161	(5.3)	(383)	14.4
Change in net assets	$ 161	41	(109)	120	292.7	$ 150	(137.6)

Revenues

The New York Lottery exists for the sole purpose of raising revenue to help support Aid to Education. The Lottery achieves its mission through the sale of Lottery tickets at approximately 17,000 licensed retail locations across the state. The Lottery also achieves its mission through nine licensed video lottery gaming facilities located in Saratoga, Monticello, Farmington, Hamburg, Batavia, Tioga, Vernon, Yonkers, and New York City.

During fiscal year 2012, the Lottery achieved $3.433 billion in draw sales, $3.579 billion in instant sales, and $1.427 billion in video lottery gaming net machine income for a total of $8.439 billion, an increase of $571.3 million or 7.3% over the previous fiscal year. This record year eclipses the record set the previous year when 2011 revenues reached $7.868 billion, an increase of $49.9 million or 0.6%. Significant growth was generated in video gaming and draw games during both fiscal years.

(Continued)

The following compares the Lottery's revenues by game and the percentage of total revenues by game for the fiscal years 2012, 2011, and 2010 (in millions).

Game	FY 2012 Revenue	FY 2012 Percent of total revenues	FY 2011 Revenue	FY 2011 Percent of total revenues	FY 2010 Revenue	FY 2010 Percent of total revenues
Mega Millions	$ 465	5.5%	$ 463	5.9%	$ 558	7.1%
Lotto	122	1.5	133	1.7	178	2.3
Take 5	284	3.4	283	3.6	306	3.9
Numbers	880	10.4	854	10.8	846	10.8
Win 4	814	9.6	777	9.9	766	9.8
Quick Draw	502	5.9	424	5.4	412	5.3
Pick 10	31	0.4	30	0.4	32	0.4
Sweet Million	39	0.5	45	0.6	36	0.5
Powerball	296	3.5	203	2.6	36	0.5
Instant	3,579	42.4	3,546	45.0	3,611	46.1
Subtotal traditional lottery	7,012	83.1	6,758	85.9	6,781	86.7
Video Gaming, net *	1,427	16.9	1,110	14.1	1,037	13.3
Total revenues	$ 8,439	100.0%	$ 7,868	100.0%	$ 7,818	100.0%

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

	FY 2012	FY 2011	FY 2010
Credits played	$ 19,547	13,337	12,328
Credits won	(18,120)	(12,227)	(11,291)
Net machine income	$ 1,427	1,110	1,037

Direct Expenses

Direct expenses consist of prize expense for traditional Lottery games, commissions to Lottery retailers and video lottery gaming facilities, fees to gaming contractors, expenses of providing instant tickets to players, and telecommunications. The largest expenditure in this category is prize expense which made up more than 75% of direct expenses during each of the three years being discussed. Prizes increased by $162.7 million to $4.130 billion in fiscal year 2012. At the same time, retailer commissions increased by $155.1 million to $1.037 billion and gaming contractor fees increased by $30.4 million to $173.7 million.

During fiscal year 2011, prize expense increased by $16.5 million to $3.968 billion. At the same time, retailer commissions increased by $6.5 million to $881.9 million and gaming contractor fees increased by $9.7 million to $143.3 million.

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Other Operating Expenses

Other operating expenses include marketing, state agency charges, personal services, fringe benefits and other administrative costs. These costs were $129.8 million during fiscal year 2012 which was 6.3% lower than the prior year. Corresponding costs in fiscal year 2011 were $138.5 million which was 4.3% higher than in fiscal year 2010.

Nonoperating Revenues (Expenses)

Nonoperating revenues and expenses consist of miscellaneous income plus the net growth or decline in the fair market value of investments used to fund long-term prizes. Investment income of $197.0 million in 2012, $90.9 million in 2011 and $(40.0) million in 2010 consists of both the fair value adjustments of investments plus the normal growth of the value of Lottery investments as the securities move closer to maturity. The market driven, fair value adjustment was the primary factor in causing a negative investment income in 2010. Investment expense is a reflection of the Lottery expending the investment income to increase the valuation of the long-term prizes payable to winners. The annual fair value adjustment of investments (shown here as income) flows to the unrestricted net assets balance on the statement of net assets.

Income Before Required Allocation and Change in Net Assets

The revenues and expenses for fiscal year 2012 resulted in income before required allocation totaling $3.049 billion. This amount consists of a required allocation for Aid to Education of $2.888 billion that transfers out as a contribution for Aid to Education and a $160.7 million increase in net assets for the year. The $160.7 million increase in net assets is a combination of a $36.1 million increase in net assets restricted for prizes, a $0.1 million increase in net assets invested in capital assets, and a $124.5 million increase in unrestricted net assets. The revenues and expenses for fiscal year 2011 resulted in income before required allocation totaling $3.091 billion. This amount consists of a required allocation for Aid to Education of $3.049 billion that transfers out as a contribution for Aid to Education and a $41.7 million increase in net assets for the year. The $41.7 million increase in net assets is a combination of a $25.8 million increase in net assets restricted for prizes, a $0.2 million decrease in net assets invested in capital assets, and a $16.1 million increase in unrestricted net assets.

Summary and Outlook

As a mature business entity, the New York Lottery generally anticipates only moderate growth from year to year. An opportunity to move beyond normal growth occurred in October 2011 with the opening of a new video gaming facility in Queens, NY, at the Aqueduct Racetrack. During its initial partial year of operation, it generated $253.3 million in revenue. During subsequent full years, it is projected to generate $656 million in annual revenue.

Contacting New York Lottery's Financial Management

This financial report is designed to provide the State of New York, the public, and other interested parties with an overview of the financial results of the New York State Lottery and an explanation of the Lottery's financial condition. If you have any questions about this report or require additional information, email Questions@Lottery.ny.gov or write to The New York Lottery Communications Office, One Broadway Center, P.O. Box 7500, Schenectady, NY 12301-7500.

NEW YORK STATE LOTTERY

Statements of Net Assets

March 31, 2012 and 2011

(In thousands)

Assets	2012	2011
Current assets:		
Cash and cash equivalents	$ 386,230	230,468
Accounts receivable	469,732	598,435
Instant ticket inventory	7,991	10,842
Investments	138,133	148,692
Total current assets	1,002,086	988,437
Noncurrent assets:		
Long-term investments, net	1,446,593	1,329,903
Capital assets	43	1,720
Total noncurrent assets	1,446,636	1,331,623
Total assets	2,448,722	2,320,060
Liabilities		
Current liabilities:		
Prizes payable	171,051	172,132
Unclaimed prizes	335,110	325,013
Due to education	227,586	168,697
Accounts payable and accrued liabilities	25,150	169,903
Capital lease obligations	—	1,810
Deferred ticket sales	9,602	11,808
Compensated absences	1,765	1,471
Total current liabilities	770,264	850,834
Noncurrent liabilities:		
Compensated absences	662	358
Long-term prizes payable	1,306,498	1,258,278
Total noncurrent liabilities	1,307,160	1,258,636
Total liabilities	2,077,424	2,109,470
Net Assets		
Restricted for future prizes	140,965	104,894
Invested in capital assets, net of related debt	43	(90)
Unrestricted	230,290	105,786
Total net assets	$ 371,298	210,590

See accompanying notes to basic financial statements.

NEW YORK STATE LOTTERY

Statements of Revenue, Expenses, and Changes in Net Assets

Years ended March 31, 2012 and 2011

(In thousands)

	2012	2011
Operating revenue:		
Lottery revenue, net	$ 8,439,473	7,868,211
Operating expenses:		
Prize expense	(4,130,406)	(3,967,672)
Retailer commissions	(1,036,958)	(881,923)
Gaming contractor fees	(173,704)	(143,254)
Instant ticket direct expenses	(25,194)	(26,145)
Telecommunications	(20,330)	(19,206)
Total direct expenses	(5,386,592)	(5,038,200)
Online games/jackpot marketing	(47,923)	(44,406)
Personal service and fringe benefits	(31,020)	(31,324)
Instant games marketing	(29,217)	(36,414)
All games marketing	(8,685)	(11,321)
Other administrative costs	(9,620)	(11,049)
State agency charges	(1,618)	(1,739)
Depreciation	(1,677)	(2,247)
Total indirect expenses	(129,760)	(138,500)
Total operating expenses	(5,516,352)	(5,176,700)
Operating income	2,923,121	2,691,511
Nonoperating revenue (expenses):		
Investment income	196,965	90,928
Other revenue (expense), net	(230)	381,995
Investment expense, net	(71,160)	(73,537)
Total nonoperating revenue (expense)	125,575	399,386
Income before required allocation	3,048,696	3,090,897
Required allocation for aid to education	(2,887,988)	(3,049,154)
Change in net assets	160,708	41,743
Net assets beginning of year	210,590	168,847
Net assets end of year	$ 371,298	210,590

See accompanying notes to basic financial statements.

NEW YORK STATE LOTTERY

Statements of Cash Flows

Years ended March 31, 2012 and 2011

(In thousands)

	2012	2011
Operating activities:		
Cash received from net lottery revenue	$ 8,328,528	7,865,913
Cash payments for prizes	(4,048,705)	(4,037,706)
Cash payments for commissions	(1,036,883)	(882,019)
Cash payments for contractor fees	(172,182)	(142,928)
Cash payments for telecommunications	(20,330)	(19,206)
Cash payments for instant ticket direct expenses	(22,169)	(28,766)
Cash payments for other operating expenses	(132,210)	(130,819)
Other cash payments	(230)	381,995
Net cash provided by operating activities	2,895,819	3,006,464
Investing activities:		
Proceeds from investment maturities	153,115	159,268
Purchases of investments	(87,545)	(150,921)
Interest on cash and cash equivalents and investments	25,282	21,217
Net proceeds from sales of investment securities	—	63,124
Net cash provided by investing activities	90,852	92,688
Noncapital financing activities:		
Cash transfer to State for Aid to Education	(2,883,980)	(3,142,995)
Cash received from State General Fund for Lottery Aid Guarantee	54,881	123,153
Net cash used in noncapital financing activities	(2,829,099)	(3,019,842)
Capital financing activities:		
Cash payments for equipment and capital leases	(1,810)	(2,062)
Net cash used in capital financing activities	(1,810)	(2,062)
Net increase in cash and cash equivalents	155,762	77,248
Cash and cash equivalents, beginning of year	230,468	153,220
Cash and cash equivalents, end of year	$ 386,230	230,468
Reconciliation of operating income to cash provided by operating activities:		
Operating income	$ 2,923,121	2,691,511
Adjustments to reconcile operating income to net cash provided by operating activities:		
Other cash payments	(230)	381,995
Depreciation	1,677	2,247
Change in operating assets and liabilities:		
(Increase) decrease in accounts receivable, net	128,685	(177,654)
(Increase) decrease in ticket inventory	2,851	(1,046)
Decrease in prizes payable	(24,021)	(91,775)
Increase in unclaimed prizes	10,097	43,531
Increase (decrease) in compensated absences	598	(17)
Increase (decrease) in accounts payable and accrued liabilities	(144,753)	157,103
Increase (decrease) in deferred ticket sales	(2,206)	569
Net cash provided by operating activities	$ 2,895,819	3,006,464
Noncash investing activities:		
Increase in unrealized gains on investments	$ 124,636	16,429
Amortization of investment discount	47,065	50,195

See accompanying notes to basic financial statements.

(1) Summary of Significant Accounting Policies

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

These financial statements present only the Lottery and do not present the financial position of the State nor changes in the State's financial position and cash flows. However, the Lottery is included in the State of New York's Basic Financial Statements as an enterprise fund.

The Lottery prepares its financial statements under the economic resources measurement focus whereby all inflows, outflows and balances affecting net assets are reported, and uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. The primary operating revenue of the Lottery is ticket sales from games. Nonoperating income consists mostly of investment income and unrealized gains on investments. Operating expenses consist of direct expenses for prizes, commissions to Lottery retailers, fees to gaming contractors, expenses for providing instant tickets to players, and telecommunications. Other operating expenses that are indirect to the results of each game include marketing, state agency charges, personal services, and fringe benefits. Nonoperating expense includes the amortization of the discount on long-term prizes payable. The Lottery applies all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Statements and Interpretations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The Lottery has elected the option, under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities That Use Proprietary Fund Accounting,* not to apply all FASB Statements and Interpretations issued after November 30, 1989.

The more significant accounting policies of the Lottery are described below:

(a) Revenue Recognition

(i) Draw Games

Revenue from ticket sales for Lotto, Sweet Million, Quick Draw, Take 5, Pick 10, Mega Millions, PowerBall, Numbers and Win-4 games, and promotional games (draw games) is recognized when the related drawing takes place. Receipts from subscription sales and other ticket sales for future drawings are recorded as deferred revenue and will not be recognized as revenue until the related drawings take place.

(ii) Instant Games

Revenue from Instant Games is recognized based on the dollar value of the total number of tickets available for sale. Tickets are available for sale upon being activated on the Lottery Validation System at the retailer locations.

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(iii) Video Gaming

Revenue from video lottery gaming is recognized based on net machine income, which is defined as amounts played less prizes won.

(b) Commissions and Fees

Retailers selling draw and Instant Game tickets receive a commission of 6% based on the total tickets sold. Video gaming facilities receive a varying percent of incremental annual net machine income according to provisions of Section 1612 of the Tax Law. The particular percent applied to a range of net machine income can vary depending on the facility's number of video gaming machines, geographical area of the state, population level, or proximity to Native American gaming facilities. The draw game contractor and the video gaming central processing contractor receive fees equal to a contractual percentage of the sales generated through the network maintained by the respective contractor. The instant game contractor is paid a fee equal to a contractual percentage of instant sales. Video lottery terminal contractors receive a fee equal to a contractual percentage of revenue, adjusted for the units of service provided. All other gaming contractors are paid fees based on the units of service provided (see note 13).

(c) Accounts Receivable

Accounts receivable primarily represents amounts due from retailers through a Lottery gaming contractor and amounts due from video lottery gaming facilities, net of commissions and fees, as well as amounts due from agents for Instant Game tickets which have been activated, but not yet settled. Instant ticket settlements occur within 45 days after a book of tickets is activated. Video lottery gaming receivables are received two business days after each sales day and draw games are collected within four business days after the close of each sales week.

(d) Allocation of Revenue from Ticket Sales

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

- Allocations of ticket sales revenue to New York for educational purposes are to be at least 20% for the New York State Lottery Instant Games, 35% for Take 5, Numbers, Win-4, Mega Millions, Powerball, and Pick 10, 45% for Lotto, Sweet Million, and promotional games, and 25% for Quick Draw. In addition, the Lottery has statutory authority to issue up to three Instant Games per year with at least 10% for educational purposes in 2011 and five such games in 2012 and subsequent years. For video lottery, the required allocation to education is a varying percent of each facility's annual incremental net machine income, depending on factors such as the facility's number of video gaming machines, geographical area of the state, population level, and proximity to Native American gaming facilities.
- Allocations of ticket sales revenue for the payment of lottery prizes are not to exceed 65% for the New York State Lottery Instant Games, 50% for Take 5, New York's Numbers, Win-4, Mega Millions, Powerball, and Pick 10, 40% for Lotto, Sweet Million, and promotional games, and 60% for Quick Draw. In addition, the Lottery has statutory authority to issue up to three Instant Games per year with up to 75% allocated to prizes in 2011 and five such games

(Continued)

in 2012 and subsequent years. Video lottery is required to pay prizes that average no less than 90% of gross sales.

- Allocations of ticket sales revenue from all traditional games for the payment of Lottery administrative expenses (including agent commissions and contractor fees) are not to exceed 15%. For video lottery, 10% of net revenue (the total revenue wagered after payout for prizes) is allocated for Lottery Administration. Unlike traditional games, video lottery administrative expenses do not include commissions and fees which are described separately in note 1b. Any excess of the maximum allocation over actual administrative expenses is allocated to education. Such allocations amounted to approximately $425,700,000 and $392,991,000 for fiscal years 2012 and 2011, respectively. Administrative expenses incurred by the Lottery represent telecommunications, advertising, salary and other operating costs.

(e) Cash and Cash Equivalents

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

(f) Investments

Investments, consisting of U.S. Government-backed obligations (zero coupon bonds and stripped Government securities) and New York City municipal bonds, are carried at fair value. Investment income represents accretion of bond discount, interest on bonds and deposits, and the change in fair value of investments.

(g) Inventory

Instant Game tickets are purchased from printing vendors. Tickets not activated for sale are held in inventory and are valued at cost by game. Tickets are charged to instant ticket direct expense under the first-in, first-out (FIFO) accounting method when activated for sale by the lottery retailers. At the conclusion of an Instant Game, unused inventory is charged to instant ticket direct expense.

(Continued)

(h) Capital Assets

Capital assets consist of equipment and leasehold improvements which are carried at historical cost. Equipment is capitalized when it has cost in excess of $40,000 and a useful life of two years or more. Leasehold improvements are capitalized when they have a cost of $100,000 or more. Depreciation of equipment is computed using the straight-line method over five years, the estimated useful lives of the assets. Leasehold improvements and equipment acquired under capital leases are amortized using the straight-line method over ten and five years, respectively, which is the lesser of their useful lives or the term of the leases. Changes in capital assets and related accumulated depreciation are shown below, by major class of asset, for the years ended March 31, 2012 and 2011 (in thousands).

	2010	Additions	Deletions	2011	Additions	Deletions	2012
Leasehold improvements:							
Cost	$ 4,526	—	—	4,526	—	—	4,526
Accumulated depreciation	(4,526)	—	—	(4,526)	—	—	(4,526)
Net value	—	—	—	—	—	—	—
Equipment:							
Cost	26,018	—	—	26,018	—	—	26,018
Accumulated depreciation	(22,051)	(2,247)	—	(24,298)	(1,677)	—	(25,975)
Net value	3,967	(2,247)	—	1,720	(1,677)	—	43
Total	$ 3,967	(2,247)	—	1,720	(1,677)	—	43

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

(i) Prizes Payable

Lotto, Powerball, and Mega Millions jackpot players have the option of selecting a lump sum payment or a long-term annuity payment. Some Instant Games also have jackpot prizes that are long-term annuity payments. Prizes payable represents the liability for those prizes which are payable in annual installments. Such prize payments are funded by the Lottery's investments. The amortization of the long-term annuity payment discount is recorded as investment expense in these financial statements. Any excess of investment maturities over related annuity prize payments are recorded in restricted net assets and made available for future prizes.

(j) Unclaimed Prizes

Unclaimed prizes at March 31, 2012 and 2011 were $335,110,000 and $325,013,000, respectively. Prizes unclaimed for one year after the drawing date (lapsed) are forfeited by the ticket holder. Total prizes lapsed amounted to approximately $72,659,000 and $56,550,000 for fiscal years 2012 and 2011, respectively. These forfeited prizes are netted against prize expense in the statement of Revenues, Expenses, and Changes in Net Assets.

Under the State Tax Law, the Lottery retains forfeited prizes for supplemental prizes in subsequent lottery games. During the fiscal years 2012 and 2011, these supplemental prizes were used for Mega

(Continued)

Millions, Numbers, Win 4, Powerball, Lotto, Quick Draw, Sweet Million, Take 5, and various Instant Games.

(k) Restricted Net Assets

Restricted net assets for prizes includes forfeited prizes and other prize assets that are restricted under State Tax Law Sections 1612 and 1614 for the purpose of meeting future prize expense.

(l) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and related notes. Actual results could differ from those estimates.

(2) Cash and Cash Equivalents

Lottery deposits of cash and cash equivalents are made in accordance with State Finance Law Sections 92c and 98a and State Tax Law Sections 1611 and 1612. Lottery sales receipts are allocated and deposited in separate fund accounts for prizes, education, and administration under the joint custody of the Commissioner of Taxation and Finance and the Comptroller of the State of New York. Per Section 98a of the State Finance Law, the accounts for prizes and administration earn interest through participation in a short-term investment pool administered by the Office of the State Comptroller of the State of New York. The prize account interest is used for future lottery prizes. The carrying amount of the joint custody accounts included in cash and cash equivalents were $379,175,000 and $227,973,000 at March 31, 2012 and 2011, respectively.

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, 2012 and 2011, the amount of sole custody accounts included in cash and cash equivalents related to the sole custody accounts were $7,055,000 and $2,495,000, respectively.

The Lottery's deposits are collateralized under a program administered by the Office of the State Comptroller of the State of New York. To manage custodial credit risk, the State requires that its depository banks pledge collateral based on available bank balances. All securities pledged as collateral are held by the State's fiscal agent in the name of the State. The Lottery's deposits with financial institutions were fully collateralized at fiscal year-end. The Lottery manages custodial credit risk by using several financial institutions and by minimizing balances in the sole custody accounts.

(3) Investments

The Lottery is authorized by the Office of the State Comptroller per State statute to invest prize funds which will provide for the payment of prizes payable (see note 4). The Lottery invests these funds in U.S. Government-backed obligations, New York City municipal bonds, and Agency for International Development Bonds which are guaranteed by the full faith and credit of the United States. The fair value of these investments at March 31, 2012 and 2011 was $1,584,726,000 and $1,478,595,000, respectively. During fiscal years 2012 and 2011, approximately $47,065,000 and $50,195,000, respectively, of amortized discount was included in investment income.

(Continued)

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

		2012	2011
Maturity value	$	1,741,813	1,757,880
Unamortized discount		(372,746)	(370,307)
Total at amortized cost		1,369,067	1,387,573
Less investments, maturing within one year, at amortized cost		134,845	145,120
Long-term investments, at amortized cost	$	1,234,222	1,242,453

Proceeds of the investments in each of the five fiscal years following March 31, 2012, and five year incremental totals thereafter, are as follows (in thousands):

		Maturities	Interest due	Total
2013	$	138,303	24,112	162,415
2014		126,702	23,906	150,608
2015		115,724	23,622	139,346
2016		97,491	23,622	121,113
2017		84,643	23,622	108,265
2018 – 2022		439,751	108,107	547,858
2023 – 2027		307,585	84,642	392,227
2028 – 2032		134,449	66,936	201,385
2033 – 2037		100,804	56,511	157,315
2038 – 2042		196,361	15,940	212,301
	$	1,741,813	451,020	2,192,833

The Lottery periodically enters into certain transactions whereby government securities are exchanged, through sales and purchases, for other government securities with substantially identical terms and characteristics. During 2012 and 2011, no such transactions took place. However a change in investment policy resulted in the sale and purchase of certain securities of dissimilar terms and characteristics in 2011.

Credit risk is the risk that an issuer will not fulfill its obligations. The Lottery's policy is to follow State law which limits the investments that the Lottery can make and generally limit the Lottery's exposure to credit risk. The Lottery has generally limited its investments to obligations backed by the full faith of the U.S. Government. Beginning in 2011, the Lottery held similarly rated New York City Municipal bonds. The credit ratings of the Lottery's investments as published by Moody and Standard & Poors are included on the next page.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Lottery's policy for managing this risk is to hold investment securities to maturity, at which time the fair value of the investment is equal to its stated maturity value.

(Continued)

As of March 31, 2012 and 2011, the Lottery had the following investments and maturities (amounts in thousands):

Investment type	2012 Fair value	Moody Credit rating	S&P Credit rating	2012 Investment maturities: Less than five years	5 years to 10 years	More than 10 years
U.S. Treasury Strips	$ 506,041	AAA	AAA	$ 182,090	190,371	278,870
New York City Municipal Bonds	526,553	AA1,AA2	AAA	34,375	86,325	342,620
Agency for International Development Bonds	552,132	AAA	AA+	346,398	163,055	117,709
Total	$ 1,584,726			$ 562,863	439,751	739,199

Investment type	2011 Fair value	Moody Credit rating	S&P Credit rating	2011 Investment maturities: Less than five years	5 years to 10 years	More than 10 years
U.S. Treasury Strips	$ 402,450	AAA	AAA	$ 162,204	167,718	229,075
New York City Municipal Bonds	473,127	AA1,AA2	AAA	29,955	80,395	362,550
Agency for International Development Bonds	603,018	AAA	AAA	414,204	160,697	151,082
Total	$ 1,478,595			$ 606,363	408,810	742,707

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to perform on a transaction, the Lottery will not be able to recover the value of investment securities that are in the possession of an outside party. In order to manage this risk, all of the Lottery's investments are insured or registered securities held by the Lottery or its agent in the Lottery's name.

(4) Prizes Payable

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

	2012	2011
Total obligation	$ 2,374,146	2,288,505
Unamortized discount	(896,597)	(858,095)
Total carrying amount	1,477,549	1,430,410
Less prizes payable within one year	171,051	172,132
Long-term prizes payable	$ 1,306,498	1,258,278

The amortized discount on the prizes payable is based on interest rates which range from 0.02% to 8.94% and reflect the interest rates earned by the investments held to fund the related liabilities. The amortization of discount is recorded as investment expense in the statements of revenues, expenses, and changes in net assets and amounted to $71,160,000 and $73,537,000 for fiscal years 2012 and 2011, respectively.

(Continued)

The aggregate amount of prizes payable due in each of the five fiscal years following March 31, 2012, and the five year incremental totals thereafter, is as follows (in thousands):

2013	$ 170,961
2014	155,651
2015	143,269
2016	126,870
2017	112,223
2018 – 2022	568,288
2023 – 2027	429,833
2028 – 2032	234,228
2033 – 2037	129,363
Thereafter	303,460
	$ 2,374,146

(5) Long-Term Liabilities

The Lottery's long-term liabilities, as of March 31, 2012 and 2011 are comprised of the following, (in thousands):

	Balance at March 31, 2011	Additions	Deductions	Balance at March 31, 2012	Current portion
Capital lease obligations	$ 1,810	—	(1,810)	—	—
Compensated absences (note 11)	1,829	1,928	(1,330)	2,427	1,765
Prizes payable (note 4)	1,430,410	217,816	(170,677)	1,477,549	171,051

	Balance at March 31, 2010	Additions	Deductions	Balance at March 31, 2011	Current portion
Capital lease obligations	$ 3,872	—	(2,062)	1,810	1,810
Compensated absences (note 11)	1,846	1,467	(1,484)	1,829	1,471
Prizes payable (note 4)	1,448,648	165,850	(184,088)	1,430,410	172,132

(Continued)

(6) Aid to Education

The required allocation and contribution transferred out for aid to education during the fiscal years ended March 31, 2012 and 2011, are as follows (in thousands):

		2012	2011
Cash transferred to education	$	2,883,980	3,142,995
Amount received from the State General Fund for Lottery Aid Guarantee		(54,881)	(123,153)
Net cash transferred to education		2,829,099	3,019,842
Prior year payable		(168,697)	(139,385)
Current year payable		227,586	168,697
Required allocation to education	$	2,887,988	3,049,154

Included in cash transferred to education in 2011 is a one-time licensing fee of $380,000,000 that the Lottery received for the rights to operate a video gaming facility at Aqueduct Race Track.

(7) Pension Benefits

Substantially all employees of the Lottery are members of the State and Local Employees' Retirement System (ERS) and the Public Employees' Group Life Insurance Plan (GLIP). The two programs are part of the State and Local Retirement System (System) which is a cost-sharing, multiple employer public employee retirement system. The Comptroller of the State of New York is sole trustee and administrative head of the System. The System issues a publicly available financial report that includes financial statements and required supplementary information which may be obtained by writing to New York State and Local Employees' Retirement Systems, 110 State Street, Albany, New York 12244.

The System provides retirement benefits as well as death and disability benefits. Retirement benefits are established by the New York State Retirement and Social Security Law. Vesting, retirement benefits, and contributory requirements vary depending upon the point in time at which an employee last joined the System. Most members of the System who joined before July 27, 1976 are enrolled in a noncontributory plan; the Lottery contributes the entire amount determined to be payable to the System. Personnel who joined the System on or after July 27, 1976 are required by law to contribute some percent of their gross salary for a specified number of years of employment; the Lottery withholds and contributes the balance payable to the System for these employees.

The Lottery paid to the Office of the State Comptroller of the State of New York $2,447,000 for 2012, $2,677,000 for 2011 and $1,861,000 for 2010, to cover required employer contributions for retirement benefits and equaled 100% of the required contribution in each of the respective years. These payments made represent 12.03%, 12.78%, and 8.82% of covered payroll for each of the years, respectively.

(Continued)

(8) Operating Income

Composition of operating income for fiscal 2012 and 2011 by type of lottery game is as follows (in thousands):

	2012					
		Expenses				
	Revenue	Prizes**	Commissions	Fees	Instant direct expense	Net
Mega Millions	$ 464,579	(223,747)	(27,592)	(5,380)	—	207,860
Lotto	122,272	(61,855)	(6,733)	(1,215)	—	52,469
Take 5	283,843	(142,727)	(17,030)	(2,600)	—	121,486
Pick 10	30,757	(14,068)	(1,845)	(282)	—	14,562
Numbers	880,536	(418,392)	(52,832)	(8,065)	—	401,247
Win 4	813,755	(381,956)	(48,825)	(7,454)	—	375,520
Sweet Million	39,398	(21,554)	(2,363)	(361)	—	15,120
Powerball	296,576	(142,275)	(17,815)	(3,182)	—	133,304
Instants	3,578,934	(2,405,555)	(214,736)	(35,231)	(25,194)	898,218
Quick Draw	502,039	(318,664)	(30,122)	(4,853)	—	148,400
Total traditional lottery	7,012,689	(4,130,793)	(419,893)	(68,623)	(25,194)	2,368,186
Video gaming	1,426,784*	387	(617,065)	(105,081)		705,025
	$ 8,439,473	(4,130,406)	(1,036,958)	(173,704)	(25,194)	3,073,211
Telecommunications						(20,330)
Other operating expenses						(129,760)
Total operating income						$ 2,923,121

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

Credits played	$ 19,546,897
Credits won	(18,120,113)
Net machine income	$ 1,426,784

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

(Continued)

	2011					
		Expenses				
	Revenue	Prizes**	Commissions	Fees	Instant direct expense	Net
Mega Millions	$ 463,049	(227,418)	(27,566)	(4,936)	—	203,129
Lotto	132,657	(38,375)	(7,317)	(1,219)	—	85,746
Take 5	283,217	(138,287)	(16,993)	(2,585)	—	125,352
Pick 10	30,498	(14,691)	(1,830)	(278)	—	13,699
Numbers	854,430	(428,751)	(51,266)	(7,798)	—	366,615
Win 4	776,579	(372,896)	(46,595)	(7,088)	—	350,000
Sweet Million	45,008	(17,242)	(2,700)	(411)	—	24,655
Powerball	202,628	(99,279)	(12,158)	(2,074)	—	89,117
Instants	3,546,391	(2,365,847)	(212,781)	(32,466)	(26,145)	909,152
Quick Draw	424,192	(265,263)	(25,451)	(3,871)	—	129,607
Total traditional lottery	6,758,649	(3,968,049)	(404,657)	(62,726)	(26,145)	2,297,072
Video gaming	1,109,562*	377	(477,266)	(80,528)	—	552,145
	$ 7,868,211	(3,967,672)	(881,923)	(143,254)	(26,145)	2,849,217
Telecommunications						(19,206)
Other operating expenses						(138,500)
Total operating income						$ 2,691,511

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

Credits played	$ 13,337,029
Credits won	(12,227,467)
Net machine income	$ 1,109,562

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

(9) Deferred Compensation

The State offers its employees, including Lottery employees, a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan are placed in trust for the participants and their beneficiaries.

(10) Postretirement Benefits

As a New York State (State) agency, the Lottery participates in the New York State Health Insurance Program (NYSHIP), which is administered by the State as an agent multiple employer defined benefit plan. Under the plan, the State provides certain healthcare for eligible retired employees and their dependents. In order to qualify, retirees must meet certain age requirements and minimum service periods that vary based on the time they last entered benefits-eligible service. Retirees generally contribute a percent of the cost of single and dependent coverage for health insurance benefits. The percent varies based on when the employee retired. The percent also varies based on salary grade for those retiring on or after January 1,

(Continued)

2012. The State covers 100% of the cost of single coverage for employees retired prior to January 1, 1983 who are enrolled in the Empire Plan or another plan of equal or lower cost. NYSHIP does not issue a stand-alone financial report and NYSHIP's agent activities arc included within the financial statements of the State.

During the fiscal year ended March 31, 2012, NYSHIP provided health insurance coverage through the Empire Plan, an indemnity health insurance plan with managed care components; various Health Maintenance Organizations (HMOs); and through the Student Employee Health Plan (SEHP). Generally, these include hospital, medical, mental health and substance abuse benefits, and prescription drug benefits.

The Lottery's policy regarding retiree healthcare benefits is to pay the amounts billed through the State's fringe benefit rate on a pay-as-you-go basis. The Lottery has no obligation beyond the payment of the State's fringe benefit rate for retiree healthcare benefits. The State's policy is that the State is responsible for recording the annual required contribution and the actuarial accrued liability under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* for the Lottery's retiree health care benefits in the State's governmental-wide financial statements.

At March 31, 2012 and 2011, the Lottery had between 144 and 137 retired and/or spouses of retired employees receiving these benefits with an annual pay-as-you-go cost of approximately $1,256,000 and $1,105,000, respectively.

(11) Employees' Compensated Absences

Under the terms of the Lottery's personnel policies and its union agreements, vacation pay benefits may be paid upon termination up to a maximum of 225 hours. The Lottery recognizes employees' compensated absence benefits when earned. The liability for employees' compensated absences was approximately $2,427,000 and $1,829,000 as of March 31, 2012 and 2011, respectively, and is recorded as a liability in the statements of net assets.

(12) Leases

The Lottery has entered into operating leases for equipment and building space. Rental expense was approximately $2,446,000 and $2,399,000 in 2012 and 2011, respectively.

(Continued)

Future minimum lease payments under all noncancelable operating leases having initial or remaining terms in excess of one year as of March 31, 2012 are as follows (in thousands):

	Operating leases
2013	$ 2,167
2014	2,067
2015	2,110
2016	1,723
2017	1,035
2018 and thereafter	2,533
Total minimum payments required	$ 11,635

(13) Commitments and Contingencies

(a) Contractual Arrangements

The Lottery maintains a gaming network of approximately 17,000 retailer locations where all traditional lottery games are sold. Instant Game tickets are also sold through approximately 4,800 self-service terminals. GTECH Corporation (GTECH) is responsible for operating all traditional Lottery games, including maintenance of terminals and related communication services, under a contract expiring on August 5, 2017.

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

(1) Under a contract that expires August 14, 2018 Scientific Games International is the primary supplier of Instant Game tickets.

(2) Under a contract expiring August 23, 2018 Pollard Banknote Limited is an alternate supplier of Instant Game tickets.

(3) Under a contract that expires on August 21, 2018 GTECH Printing Corporation is an alternate supplier of Instant Game tickets.

Video lottery games are offered on approximately 17,000 video gaming machines spread over nine video lottery gaming facilities. MGAM Systems, Inc. provides a central processing system for the operation of video lottery games under a contract expiring on December 31, 2017. Video lottery gaming machines are provided under contracts expiring December 31, 2017 with three different companies (Bally Gaming Inc., International Game Technology, and Spielo International USA, Inc.).

(Continued)

(b) 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.

(14) Subsequent Events

The Lottery has evaluated subsequent events from the balance sheet date through June 25, 2012, the date at which the financial statements were available to be issued.

On March 30, 2012, New York enacted Chapter 60 of the Laws of 2012, creating the New York State Gaming Commission. This legislation merges the New York State Division of Lottery with the New York State Racing and Wagering Board into a single oversight entity. The New York State Gaming Commission will supervise four divisions to carry out responsibilities relating to the regulation and enforcement of gaming activity:

1. Division of Lottery
2. Charitable Gaming
3. Gaming (including Indian gaming and Video Lottery gaming)
4. Horse racing and pari-mutuel wagering

This legislation becomes effective February 1, 2013.

STATISTICAL SECTION
(UNAUDITED)

Statistical Section Overview

This part of the New York Lottery's Comprehensive Annual Financial Report presents detailed statistical data to provide context for understanding the information covered in the preceding sections of the report. The data is intended to give greater insight into the following five general categories of information.

Financial trends
These schedules allow the reader to compare and contrast the Lottery's activities and results over time.

Revenue capacity
These schedules allow the reader to compare the various games that are the source of the Lottery's revenue.

Debt capacity
This schedule shows Lottery debt and the capacity to pay for it.

Demographic and economic information
These schedules should allow the reader to see the demographic and economic environment in which the Lottery operates.

Operating information
These schedules attempt to show the reader the relationship between the revenue earned by the Lottery and the resources required to produce it.

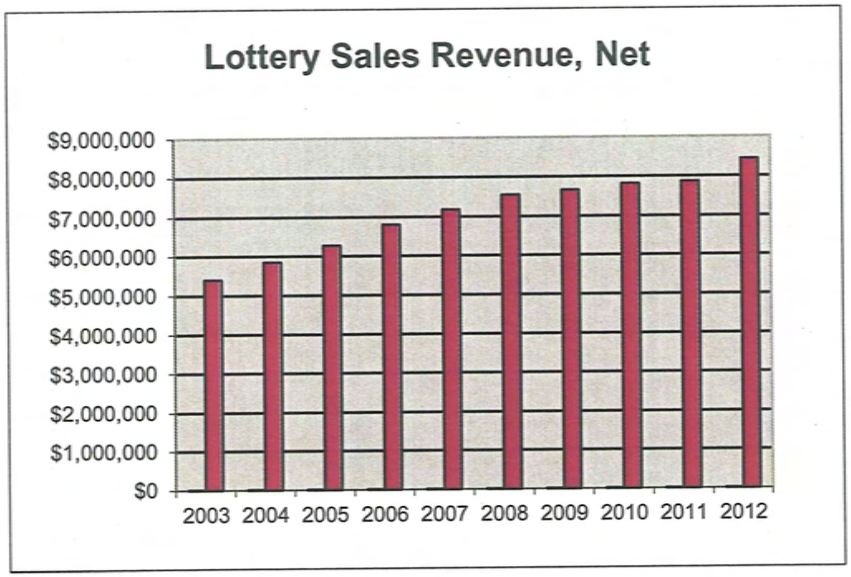
New York Lottery
Net Assets
Most Recent 10 Fiscal Years
(in thousands)

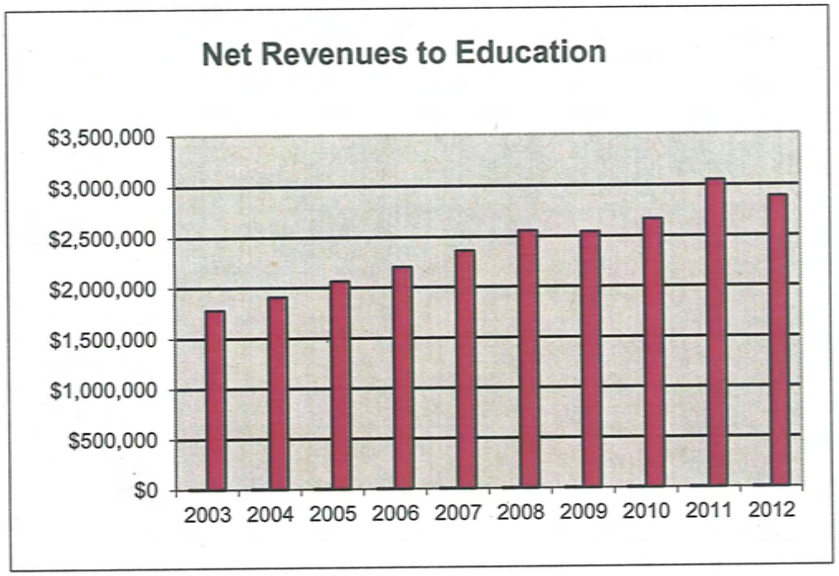
Net Assets	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Invested in capital assets	$ 7,157	$ 11,687	$ 20,534	$ 8,635	$ (152)	$ (169)	$ (77)	$ 95	$ (90)	$ 43
Restricted for future prizes	91,474	141,935	150,905	130,129	103,815	110,008	72,026	79,119	104,894	140,965
Unrestricted	234,674	211,106	118,222	77,657	86,215	163,495	205,623	89,633	105,786	230,290
Total	$ 333,305	$ 364,728	$ 289,661	$ 216,421	$ 189,878	$ 273,334	$ 277,572	$ 168,847	$ 210,590	$ 371,298

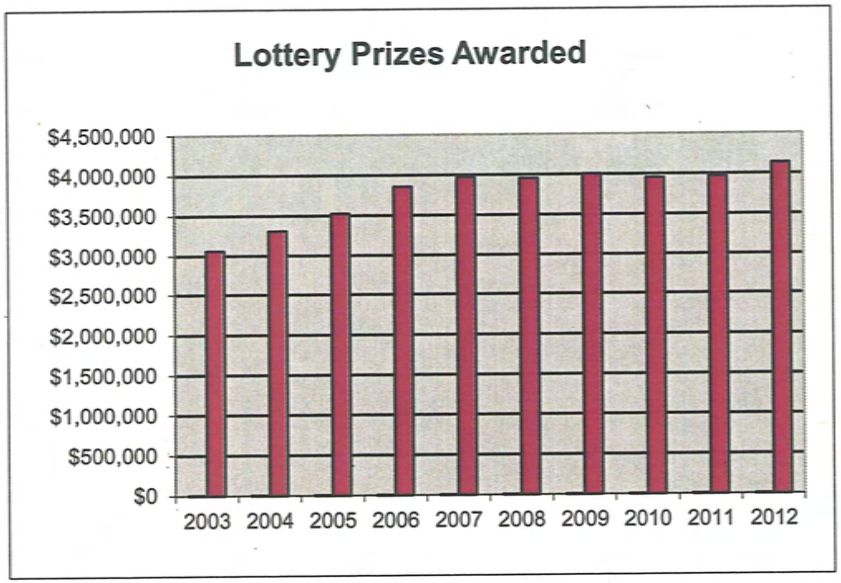
New York Lottery
Changes in Net Assets
Most Recent 10 Fiscal Years
(in thousands)

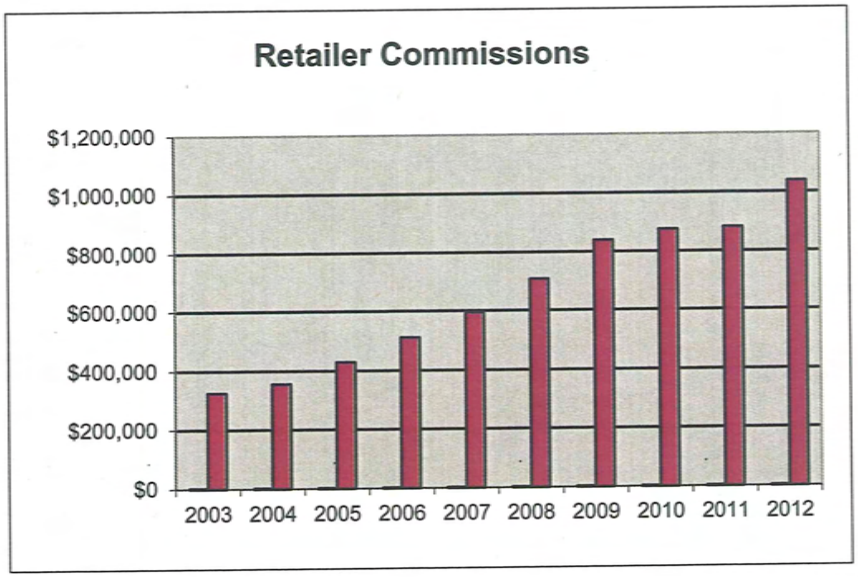
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Operating revenue										
Lottery games revenue	$ 5,395,955	$ 5,847,500	$ 6,270,487	$ 6,802,842	$ 7,175,104	$ 7,548,465	$7,660,145	$7,818,316	$ 7,868,211	$ 8,439,473
Operating expenses										
Prize expense	(3,061,744)	(3,306,335)	(3,523,530)	(3,853,270)	(3,970,739)	(3,952,761)	(4,003,267)	(3,951,226)	(3,967,672)	(4,130,406)
Retailer commissions	(324,891)	(355,656)	(429,182)	(511,059)	(595,348)	(708,514)	(839,312)	(875,430)	(881,923)	(1,036,958)
Gaming contractor fees	(55,647)	(61,511)	(78,008)	(88,028)	(100,554)	(120,887)	(126,479)	(133,587)	(143,254)	(173,704)
Instant ticket direct expenses	(32,259)	(32,511)	(31,174)	(32,091)	(28,095)	(28,160)	(32,755)	(28,575)	(26,145)	(25,194)
Telecommunications	(27,063)	(31,618)	(29,946)	(28,421)	(28,441)	(28,013)	(28,109)	(24,485)	(19,206)	(20,330)
Online games/jackpot marketing	(33,985)	(31,160)	(32,555)	(38,771)	(40,706)	(41,812)	(39,758)	(49,443)	(44,406)	(47,923)
Personal service and fringe benefits	(22,097)	(21,985)	(24,934)	(25,481)	(27,023)	(28,606)	(31,227)	(30,663)	(31,324)	(31,020)
Instant games marketing	(20,722)	(22,150)	(20,357)	(20,916)	(28,477)	(25,277)	(27,676)	(25,988)	(36,414)	(29,217)
All games marketing	(17,277)	(15,621)	(17,793)	(14,999)	(14,630)	(14,667)	(13,513)	(10,983)	(11,321)	(8,685)
Other administrative costs	(9,465)	(10,570)	(10,801)	(11,015)	(13,279)	(12,189)	(11,678)	(11,362)	(11,049)	(9,620)
State Agency charges	(3,514)	(3,547)	(6,811)	(9,469)	(13,208)	(3,461)	(1,710)	(1,540)	(1,739)	(1,618)
Depreciation	(101)	(179)	(1,916)	(2,487)	(3,051)	(4,654)	(4,599)	(2,851)	(2,247)	(1,677)
Total operating expenses	(3,608,765)	(3,892,843)	(4,207,007)	(4,636,007)	(4,863,551)	(4,969,001)	(5,160,083)	(5,146,133)	(5,176,700)	(5,516,352)
Operating income	1,787,190	1,954,657	2,063,480	2,166,835	2,311,553	2,579,464	2,500,062	2,672,183	2,691,511	2,923,121
Nonoperating revenue (expenses)										
Investment income	230,381	83,626	14,957	47,179	102,316	175,035	123,909	(40,024)	90,928	196,965
Other revenues (expense), net	647	644	166	(143)	(566)	(40,104)	(271)	(298)	381,995	(230)
Investment expense, net	(107,581)	(100,102)	(90,968)	(84,492)	(80,206)	(74,804)	(75,512)	(74,205)	(73,537)	(71,160)
Total nonoperating revenue (expenses)	123,447	(15,832)	(75,845)	(37,456)	21,544	60,127	48,126	(114,527)	399,386	125,575
Income before required allocation	1,910,637	1,938,825	1,987,635	2,129,379	2,333,097	2,639,591	2,548,188	2,557,656	3,090,897	3,048,696
Required allocation for aid to education	(1,780,355)	(1,907,402)	(2,062,702)	(2,202,619)	(2,359,640)	(2,556,135)	(2,543,950)	(2,666,381)	(3,049,154)	(2,887,988)
Change in net assets	$ 130,282	$ 31,423	$ (75,067)	$ (73,240)	$ (26,543)	$ 83,456	$ 4,238	$ (108,725)	$ 41,743	$ 160,708

New York Lottery
Major Components of Lottery Revenue
Most Recent 10 Fiscal Years
(in thousands)









New York Lottery
Revenue from Lottery Games Sales
Most Recent 10 Fiscal Years
(in thousands)

Games	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Draw Games:										
Lotto	$ 392,046	$ 356,428	$ 305,863	$ 252,643	$ 216,572	$ 208,400	$ 178,075	$ 178,239	$ 132,657	$ 122,272
Take Five	381,277	363,106	348,179	335,533	326,775	319,809	328,431	306,332	283,217	283,843
Pick 10	34,155	34,111	33,764	32,527	31,874	32,220	32,033	32,234	30,498	30,757
New York Numbers	762,622	764,277	796,032	827,409	854,791	856,539	850,331	845,401	854,430	880,536
Win-4	587,397	599,237	629,543	662,574	702,550	718,522	740,163	765,848	776,579	813,755
Quick Draw	476,294	500,194	473,594	460,528	444,978	444,256	424,422	411,898	424,192	502,039
Promotional Games*	0	0	0	154,881	102,026	17,797	8,388	0	0	0
Sweet Million	0	0	0	0	0	0	0	35,583	45,008	39,398
Powerball	0	0	0	0	0	0	0	36,320	202,628	296,576
Mega Millions	373,435	474,432	446,205	563,151	454,910	481,636	467,141	558,167	463,049	464,579
Total Draw Games	3,007,226	3,091,785	3,033,180	3,289,246	3,134,476	3,079,179	3,028,984	3,170,022	3,212,258	3,433,755
Video Lottery**	0	21,776	231,718	315,701	522,668	875,281	965,074	1,037,248	1,109,562	1,426,784
Instant Cash Games	2,388,729	2,733,939	3,005,589	3,197,895	3,517,960	3,594,005	3,666,087	3,611,046	3,546,391	3,578,934
Total Sales	$5,395,955	$5,847,500	$ 6,270,487	$6,802,842	$ 7,175,104	$7,548,465	$7,660,145	$7,818,316	$7,868,211	$8,439,473

*Promotional games are special games which are offered for only a limited period of time. The number of these games and their durations vary from year to year.
**Sales revenue for Video Lottery represents net machine income which is the amount left in the video gaming machines after players have taken their prizes.

New York Lottery
Operating Expenses and Allocations to the State for Education
Most Recent 10 Fiscal Years
(in thousands)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Operating Expenses										
Prizes	$3,061,744	$3,306,335	$3,523,530	$3,853,270	$3,970,739	$3,952,761	$4,003,267	$3,951,226	$3,967,672	$4,130,406
Retailer comm./Contractor fees	380,538	417,167	507,190	599,087	695,902	829,401	965,791	1,009,017	1,025,177	1,210,662
Instant Ticket Costs	32,259	32,511	31,174	32,091	28,095	28,160	32,755	28,575	26,145	25,194
Administration	134,224	136,830	145,113	151,559	168,815	158,679	158,270	157,315	157,706	150,090
Total Operating Expenses	$3,608,765	$3,892,843	$4,207,007	$4,636,007	$4,863,551	$4,969,001	$5,160,083	$5,146,133	$5,176,700	$5,516,352
Allocations to the State	$1,780,355	$1,907,402	$2,062,702	$2,202,619	$2,359,640	$2,556,135	$2,543,950	$2,666,381	$3,049,154	$2,887,988

New York Lottery
Outstanding Debt
Most Recent 10 Fiscal Years
(in thousands)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Capital leases payable										
Current capital leases	$ -	$ 820	$ 2,276	$ 2,352	$ 4,448	$ 4,531	$ 2,673	$ 2,062	$ 1,810	$ -
Long-term capital leases	-	3,461	7,710	5,358	11,557	6,895	4,222	1,810	-	-
Total capital leases	-	4,281	9,986	7,710	16,005	11,426	6,895	3,872	1,810	-
Administrative surplus	$ 262,372	$ 289,528	$ 312,709	$ 343,656	$ 354,232	$ 379,989	$ 382,605	$ 395,540	$ 392,991	$ 425,700

Note: By law, 15% of traditional games and 10% of video games are available for administrative costs of operating the Lottery. Any excess of this adminstrative allocation over actual operating expenses is considered administrative surplus and is allocated to education.

NEW YORK STATE DEMOGRAPHIC INFORMATION
Last Ten Calendar Years Available

Year	Population	Change From Prior Year	Personal Income Total (in millions)	Personal Income Per Capita	Change From Prior Year	Unemployment Rate
2001	19,011,000		$ 679,886	$ 35,763		4.9%
2002	19,158,000	0.77%	$ 677,604	$ 35,369	(1.10%)	5.8%
2003	19,190,000	0.17%	$ 691,123	$ 36,015	1.83%	6.0%
2004	19,227,000	0.19%	$ 737,756	$ 38,371	6.54%	5.5%
2005	19,255,000	0.15%	$ 805,717	$ 41,845	9.05%	4.8%
2006	19,306,000	0.26%	$ 818,426	$ 42,392	1.31%	4.4%
2007	19,298,000	-0.04%	$ 914,432	$ 47,385	11.78%	4.2%
2008	19,490,000	0.99%	$ 937,010	$ 48,076	1.46%	4.9%
2009	19,541,000	0.26%	$ 917,610	$ 46,958	-2.33%	8.1%
2010	19,378,000	-0.83%	$ 946,054	$ 48,821	3.97%	8.3%

Sources: Bureau of Economic Analysis
U.S. Department of Commerce
U.S. Census Bureau
New York State Department of Labor,

Compiled by the Office of the State Comptroller of New York

EMPLOYMENT BY INDUSTRY
for most recent years available

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Private employment									
Forestry, fishing, etc.	23,689	24,455	22,684	23,280	23,271	23,707	23,744	14,341	14,274
Mining	9,876	8,733	10,022	9,516	9,866	9,959	10,675	14,286	16,157
Utilities	43,796	43,301	42,213	40,623	40,651	40,506	40,119	40,355	41,026
Construction	462,822	449,250	456,704	467,615	483,981	508,530	527,531	533,932	481,531
Manufacturing	734,909	680,268	642,125	626,157	612,145	598,993	584,955	565,032	501,685
Wholesale trade	399,253	387,074	384,490	389,951	391,525	394,772	397,410	390,550	368,081
Retail trade	1,026,415	1,022,037	1,025,356	1,039,785	1,058,146	1,065,731	1,073,776	1,066,636	1,017,181
Transportation, warehouse	324,632	311,291	309,902	317,870	327,069	337,573	334,622	346,712	324,256
Information	358,650	325,881	308,447	305,139	310,275	312,293	302,404	301,954	292,108
Finance, insurance	726,286	698,378	688,840	696,548	711,845	733,599	731,480	789,048	785,910
Real estate, rental, leasing	358,530	361,088	380,434	407,062	436,758	466,261	470,170	565,276	523,673
Professional, technical	798,205	782,981	794,919	823,816	835,753	866,101	869,279	900,523	857,138
Management	122,454	127,630	126,239	125,968	130,060	135,334	137,157	139,224	139,298
Administrative, waste services	523,064	511,429	513,021	529,832	537,833	539,449	559,928	567,179	526,294
Education	339,070	350,635	363,734	376,935	388,285	401,273	405,562	412,051	414,554
Health care, social assistance	1,322,903	1,358,742	1,400,504	1,421,958	1,440,752	1,466,699	1,483,772	1,500,582	1,507,891
Arts, entertainment, recreation	258,204	268,588	270,871	283,129	287,510	295,198	299,829	320,716	316,950
Accommodation, food service	554,968	558,728	572,337	583,087	591,426	598,360	616,162	628,012	628,254
Other services	558,911	578,888	584,642	588,524	591,172	605,482	609,995	612,489	596,445
Total	8,946,637	8,849,377	8,897,484	9,056,795	9,208,323	9,399,820	9,478,570	9,708,898	9,352,706
Government employment									
Federal, civilian	134,377	133,580	135,408	130,490	128,925	127,015	127,046	127,037	127,052
Military	57,973	57,603	57,140	56,362	56,257	57,590	57,087	59,940	60,058
State	251,702	253,528	250,308	249,034	247,293	246,101	247,038	250,133	246,748
Local	1,040,677	1,061,115	1,059,876	1,063,024	1,068,446	1,069,467	1,079,349	1,091,269	1,091,970
Total	1,484,729	1,505,826	1,502,732	1,498,910	1,500,921	1,500,173	1,510,520	1,528,379	1,525,828
Total nonfarm employment	10,431,366	10,355,203	10,400,216	10,555,705	10,709,244	10,899,993	10,989,090	11,237,277	10,878,534
Total farm employment	59,730	59,916	59,641	54,827	54,243	52,102	50,784	51,724	51,219
Total employment	10,491,096	10,415,119	10,459,857	10,610,532	10,763,487	10,952,095	11,039,874	11,289,001	10,929,753

Source: Regional Economic Information System, Bureau of Economic Analysis
through the Office of the State Comptroller

New York Lottery
Operating Information
Most Recent 10 Fiscal Years
(all dollars in thousands)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Draw Games										
Sales	$3,007,226	$ 3,091,785	$3,033,180	$ 3,289,246	$3,134,476	$ 3,079,179	$ 3,028,984	$ 3,170,022	$3,212,258	$3,433,755
Prizes	$1,495,540	$ 1,507,863	$1,539,996	$ 1,741,777	$1,634,152	$ 1,554,302	$ 1,544,341	$ 1,582,169	$1,602,202	$1,725,238
Percent of sales	50%	49%	51%	53%	52%	50%	51%	50%	50%	50%
Retailer commissions	$ 180,385	$ 184,640	$ 181,413	$ 196,857	$ 187,066	$ 183,961	$ 180,685	$ 189,204	$ 191,876	$ 205,157
Percent of sales	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%
Contractor fees	$ 38,020	$ 39,531	$ 38,782	$ 41,351	$ 39,660	$ 39,378	$ 38,691	$ 39,224	$ 30,260	$ 33,392
Percent of sales	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Instant Games										
Sales	$2,388,729	$ 2,733,939	$3,005,589	$ 3,197,895	$3,517,960	$ 3,594,005	$ 3,666,087	$ 3,611,046	$3,546,391	$3,578,934
Prizes	$1,566,204	$ 1,798,472	$1,983,561	$ 2,111,635	$2,336,626	$ 2,398,636	$ 2,459,439	$ 2,369,845	$2,365,847	$2,405,555
Percent of sales	66%	66%	66%	66%	66%	67%	67%	66%	67%	67%
Retailer commissions	$ 144,506	$ 164,701	$ 180,571	$ 192,094	$ 211,370	$ 216,830	$ 219,974	$ 216,664	$ 212,781	$ 214,736
Percent of sales	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%
Contractor fees	$ 17,627	$ 20,317	$ 22,336	$ 23,848	$ 26,221	$ 26,809	$ 27,386	$ 27,505	$ 32,466	$ 35,231
Percent of sales	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Ticket and related costs	$ 32,259	$ 32,511	$ 31,174	$ 32,091	$ 28,095	$ 28,160	$ 32,755	$ 28,575	$ 26,145	$ 25,194
Percent of sales	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Video										
Sales (net machine income)		$ 21,776	$ 231,718	$ 315,701	$ 522,668	$ 875,281	$ 965,074	$ 1,037,248	$1,109,562	$1,426,784
Facility commissions		$ 6,315	$ 67,198	$ 122,108	$ 196,912	$ 307,723	$ 438,653	$ 469,562	$ 477,266	$ 617,065
Percent of sales		29%	29%	39%	38%	35%	45%	45%	43%	43%
Contractor fees		$ 1,663	$ 16,890	$ 22,829	$ 34,673	$ 54,700	$ 60,402	$ 66,858	$ 80,528	$ 105,081
Percent of sales		8%	7%	7%	7%	6%	6%	6%	7%	7%
All Games										
Sales	$5,395,955	$ 5,847,500	$6,270,487	$ 6,802,842	$7,175,104	$ 7,548,465	$ 7,660,145	$ 7,818,316	$7,868,211	$8,439,473
Administrative costs	$ 134,224	$ 136,830	$ 145,113	$ 151,559	$ 168,815	$ 158,679	$ 158,270	$ 157,315	$ 157,706	$ 150,090
Percent of sales	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Number of Employees	330	329	335	333	334	342	359	351	333	331
Number of Retailers	15,100	15,000	16,000	16,000	16,000	16,100	16,500	16,700	16,553	16,806

New York Lottery
Capital Assets
Most Recent 10 Fiscal Years

	Leasehold improvements			Equipment		
	Cost	Accumulated Depreciation	Net Value	Cost	Accumulated Depreciation	Net Value
2003	$ 4,526,000	$ 4,526,000	$ -	$ 2,595,000	$ 2,348,000	$ 247,000
2004	$ 4,526,000	$ 4,526,000	$ -	$ 6,990,000	$ 2,493,000	$ 4,497,000
2005	$ 4,526,000	$ 4,526,000	$ -	$ 14,598,000	$ 4,409,000	$ 10,189,000
2006	$ 4,526,000	$ 4,526,000	$ -	$ 14,963,000	$ 6,896,000	$ 8,067,000
2007	$ 4,526,000	$ 4,526,000	$ -	$ 25,800,000	$ 9,947,000	$ 15,853,000
2008	$ 4,526,000	$ 4,526,000	$ -	$ 25,858,000	$ 14,601,000	$ 11,257,000
2009	$ 4,526,000	$ 4,526,000	$ -	$ 26,018,000	$ 19,200,000	$ 6,818,000
2010	$ 4,526,000	$ 4,526,000	$ -	$ 26,018,000	$ 22,051,000	$ 3,967,000
2011	$ 4,526,000	$ 4,526,000	$ -	$ 26,018,000	$ 24,298,000	$ 1,720,000
2012	$ 4,526,000	$ 4,526,000	$ -	$ 26,018,000	$ 25,975,000	$ 43,000