



**NEW YORK STATE LOTTERY**

Basic Financial Statements

March 31, 2014 and 2013

(With Independent Auditors' Report Thereon)

**NEW YORK STATE LOTTERY**

Basic Financial Statements

March 31, 2014 and 2013

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KPMG LLP  
515 Broadway  
Albany, NY 12207-2974

## **Independent Auditors' Report**

The New York State Gaming Commission:

We have audited the accompanying statements of net position of the New York State Lottery (the Lottery), an enterprise fund of the State of New York, as of March 31, 2014 and 2013, and the related statements of revenue, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the basic financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the New York State Lottery as of March 31, 2014 and 2013, and the changes in its net position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



**Emphasis of a Matter**

As discussed in note 1, the Lottery’s financial statements present only the New York State Lottery enterprise fund of the State of New York and do not purport to, and do not, present fairly the financial position of the State of New York, as of March 31, 2014 and 2013, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Other Matters**

***Required Supplementary Information***

U.S. generally accepted accounting principles require that the management’s discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board 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*

Albany, New York  
July 10, 2014

## NEW YORK STATE LOTTERY

### Management's Discussion and Analysis (Unaudited)

March 31, 2014 and 2013

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 years ending March 31, 2014 and 2013. 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, 2014 and 2013 have been prepared in accordance with U.S. generally accepted accounting principles.

#### Financial Highlights

- New York Lottery revenues totaled \$9.226 billion, the largest total ever for the Lottery, while net proceeds earned for Lottery Aid to Education reached \$3.173 billion for fiscal year 2014.
- New York Lottery revenues in fiscal year 2014 surpassed the revenues of 2013 by \$292.2 million or 3.3%. In fiscal year 2013, the annual revenue increase was \$494.8 million or 5.9%.
- Net proceeds earned for Lottery Aid to Education in fiscal year 2014 were more than the net proceeds of 2013 by \$127.2 million or 4.2%. Comparatively, the annual earnings for education in fiscal year 2013 were more than 2012 by \$157.8 million or 5.5%.
- Prize expense increased by \$188.9 million or 4.5% during fiscal year 2014. Prize expense increased by \$88.6 million or 2.1% during fiscal year 2013. Prize expense generally follows the changes occurring in sales of the corresponding games.
- Operating income increased by \$46.4 million or 1.5% during fiscal year 2014. Operating income increased by \$165.5 million or 5.7% during fiscal year 2013.
- Nonoperating income decreased by \$143.5 million during fiscal year 2014 after decreasing by \$87.0 million during fiscal year 2013. The changes in this category are generally the result of unrealized gains/losses on investments which can change by large amounts in either direction from year to year.
- Working Capital (current assets minus current liabilities) decreased by \$23.1 million in fiscal year 2014 after decreasing by \$12.7 million in fiscal year 2013.

#### 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 2014 and 2013:

#### *Statements of Net Position*

The statement on page 10 provides information on the nature and amount of the Lottery's assets, liabilities and net position at the close of fiscal years 2014 and 2013. The relationship of assets to liabilities and resulting net position is one indicator of the financial condition of the Lottery and can also be a reflection of changes within the Lottery.

## NEW YORK STATE LOTTERY

### Management's Discussion and Analysis (Unaudited)

March 31, 2014 and 2013

#### *Statements of Revenue, Expenses, and Changes in Net Position*

The statement on page 11 reflects the Lottery's operating and nonoperating revenues and expenses and the change in net position for the year.

#### *Statements of Cash Flows*

The comparative statement on page 12 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.
- Video Gaming Administration Account – Utilized to pay the administrative costs of video gaming.

**NEW YORK STATE LOTTERY**

Management's Discussion and Analysis (Unaudited)

March 31, 2014 and 2013

**Financial Analysis**

***Summary of Net Position***

The comparative summary of net position represents the Lottery's financial position as of the fiscal years 2014, 2013, and 2012 (in millions):

	FY 2014	FY 2013	FY 2012	FY 2014 vs. FY 2013		FY 2013 vs. FY 2012	
				Dollar change	Percent change	Dollar change	Percent change
Capital assets	\$ —	—	—	—	—%	\$ —	—%
Other assets	2,544	2,589	2,449	(45)	(1.7)	140	5.7
Total assets	2,544	2,589	2,449	(45)	(1.7)	140	5.7
Current liabilities	935	811	770	124	15.3	41	5.3
Noncurrent liabilities	1,299	1,325	1,307	(26)	(2.0)	18	1.4
Total liabilities	2,234	2,136	2,077	98	4.6	59	2.8
Restricted net position	150	185	141	(35)	(18.9)	44	31.2
Unrestricted net position	160	268	230	(108)	(40.3)	38	16.5
Total net position \$	310	453	371	(143)	(31.6)	82	22.1

***Capital Assets***

Capital assets consist of equipment and leasehold improvements. During fiscal year 2014 and 2013, there were no significant changes in capital assets other than disposal of fully depreciated assets. Activity was primarily limited to yearly depreciation. Additional information about the Lottery's capital assets can be found in note 1i 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 2014, other assets decreased by \$45.3 million which represented a decrease of 1.7% from the previous year. This decrease was a result of a decrease to investments. In fiscal year 2013 other assets increased by \$140.2 million, or 5.7%.

***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 (unearned ticket sales), and the short-term portion of long-term prizes payable and amounts due to employees for unused vacation leave. In total, these accounts increased by \$123.9 million during fiscal year 2014. This change can be compared to the fiscal year ended March 31, 2013 when there was a \$40.8 million annual increase in total current liabilities.

## NEW YORK STATE LOTTERY

### Management's Discussion and Analysis (Unaudited)

March 31, 2014 and 2013

#### ***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 and unused employee vacation leave. During fiscal year 2014, noncurrent liabilities decreased by \$26.4 million, with the decrease occurring primarily in the category of long-term prizes payable. During fiscal year 2013, noncurrent liabilities increased by \$17.9 million, with the increase occurring primarily in the category of 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 Position***

Restricted net position for future prizes consists 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.

Investment in capital assets is the amount recorded as capital assets less the amounts of related debt. During fiscal years 2014, 2013, and 2012, capital assets were \$0.0 million, \$0.005 million and \$0.04 million, respectively, while related debt was \$0.0 million, \$0.0 million and \$0.0 million.

Unrestricted net position listed on the statement of net position is 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.

## NEW YORK STATE LOTTERY

### Management's Discussion and Analysis (Unaudited)

March 31, 2014 and 2013

#### *Summary of Revenue, Expenses, and Changes in Net Position*

The following summary compares the Lottery's operating revenues, expenses and changes in net position for the fiscal years 2014, 2013 and 2012 (in millions).

	FY 2014	FY 2013	FY 2012	FY 2014 vs. FY 2013		FY 2013 vs. FY 2012	
				Dollar change	Percent change	Dollar change	Percent change
Operating revenue:							
Lottery revenue, net	\$ 9,226	8,934	8,439	292	3.3%	\$ 495	5.9%
Operating expenses:							
Direct expenses	(5,958)	(5,708)	(5,386)	(250)	4.4	(322)	6.0
Indirect expenses	(133)	(138)	(130)	5	(3.6)	(8)	6.2
Total operating expenses	(6,091)	(5,846)	(5,516)	(245)	4.2	(330)	6.0
Operating income	3,135	3,088	2,923	47	1.5	165	5.6
Nonoperating income (expenses):							
Nonoperating income	(34)	108	197	(142)	(131.5)	(89)	(45.2)
Nonoperating expenses	(71)	(69)	(71)	(2)	2.9	2	(2.8)
Total nonoperating income (expenses)	(105)	39	126	(144)	(369.2)	(87)	(69.0)
Income before required allocation	3,030	3,127	3,049	(97)	(3.1)	78	2.6
Required allocation – contribution for aid to education	(3,173)	(3,046)	(2,888)	(127)	4.2	(158)	5.5
Change in net position	\$ (143)	81	161	(224)	(276.5)	\$ (80)	(49.7)

#### *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 17,500 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 2014, the Lottery achieved \$3.637 billion in draw sales, \$3.677 billion in instant sales, and \$1.912 billion in video lottery gaming net machine income for a total of \$9.226 billion, an increase of \$292.2 million or 3.3% over the previous fiscal year. This record year eclipses the record set the previous year when 2013 revenues reached \$8.934 billion, an increase of \$494.8 million or 5.9%. The most significant growth was generated in draw sales during fiscal year 2014 while video gaming generated the most significant growth in fiscal year 2013.

## NEW YORK STATE LOTTERY

### Management's Discussion and Analysis (Unaudited)

March 31, 2014 and 2013

The following compares the Lottery's revenues by game and the percentage of total revenues by game for the fiscal years 2014, 2013, and 2012 (in millions).

Game	FY 2014		FY 2013		FY 2012	
	Revenue	Percent of total revenues	Revenue	Percent of total revenues	Revenue	Percent of total revenues
Mega Millions	\$ 400	4.3%	\$ 255	2.9%	\$ 465	5.5%
Lotto	95	1.0	110	1.2	122	1.5
Take 5	256	2.8	266	3.0	284	3.4
Numbers	874	9.5	847	9.5	880	10.4
Win 4	831	9.0	794	8.9	814	9.6
Quick Draw	654	7.1	580	6.5	502	5.9
Pick 10	29	0.3	30	0.3	31	0.4
Sweet Million	33	0.4	35	0.4	39	0.5
Powerball	463	5.0	468	5.2	296	3.5
Promo game	2	—	—	—	—	—
Instant	3,677	39.9	3,724	41.7	3,579	42.4
Subtotal traditional lottery	7,314	79.3	7,109	79.6	7,012	83.1
Video Gaming, net *	1,912	20.7	1,825	20.4	1,427	16.9
Total revenues	\$ 9,226	100.0%	\$ 8,934	100.0%	\$ 8,439	100.0%

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

	FY 2014	FY 2013	FY 2012
Credits played	\$ 32,348	28,672	19,547
Credits won	(30,436)	(26,847)	(18,120)
Net machine income	\$ 1,912	1,825	1,427

### **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 approximately 75% of direct expenses during each of the three years being discussed. Prizes increased by \$188.9 million to \$4.408 billion in fiscal year 2014. At the same time, retailer commissions increased by \$53.6 million to \$1.290 billion and gaming contractor fees increased by \$10.4 million to \$219.7 million.

During fiscal year 2013, prize expense increased by \$88.6 million to \$4.219 billion. At the same time, retailer commissions increased by \$199.6 million to \$1.237 billion and gaming contractor fees increased by \$35.6 million to \$209.3 million.

### **Other Operating Expenses**

Other operating expenses include marketing, state agency charges, personal services, fringe benefits and other administrative costs. These costs were \$133.4 million during fiscal year 2014 which was 3.4% lower than the prior year. Corresponding costs in fiscal year 2013 were \$138.0 million which was 6.3% higher than in fiscal year 2012.

## NEW YORK STATE LOTTERY

Management's Discussion and Analysis (Unaudited)

March 31, 2014 and 2013

### ***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 \$(35.4) million in 2014, \$107.7 million in 2013 and \$197.0 million in 2012 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, which is subject to considerable variance over time, is the primary factor in causing any large differences from year to year. 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 position balance on the statement of net position.

### ***Income Before Required Allocation and Change in Net Position***

The revenues and expenses for fiscal year 2014 resulted in income before required allocation totaling \$3.030 billion. This amount consists of a required allocation for Aid to Education of \$3.173 billion that transfers out as a contribution for Aid to Education and a \$142.9 million decrease in net position for the year. The \$142.9 million decrease in net position is a combination of a \$34.7 million decrease in net position restricted for prizes and a \$108.2 million decrease in unrestricted net position. The revenues and expenses for fiscal year 2013 resulted in income before required allocation totaling \$3.127 billion. This amount consists of a required allocation for Aid to Education of \$3.046 billion that transfers out as a contribution for Aid to Education and an \$81.5 million increase in net position for the year. The \$81.5 million increase in net position is a combination of a \$43.9 million increase in net position restricted for prizes and a \$37.6 million increase in unrestricted net position.

### **Summary and Outlook**

As a mature business entity, the New York Lottery generally anticipates only moderate but steady 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. As a result, video lottery revenue grew from \$1.427 billion in 2012 to \$1.825 billion in 2013 to \$1.912 billion in 2014.

### **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 [info@gaming.ny.gov](mailto:info@gaming.ny.gov) or write to The New York State Gaming Commission Communications Office, One Broadway Center, P.O. Box 7500, Schenectady, NY 12301-7500.

**NEW YORK STATE LOTTERY**

Statements of Net Position

March 31, 2014 and 2013

(In thousands)

<b>Assets</b>	<b>2014</b>	<b>2013</b>
Current assets:		
Cash and cash equivalents	\$ 515,992	444,837
Accounts receivable	479,000	441,486
Instant ticket inventory	9,141	8,378
Investments	126,915	135,542
Total current assets	<u>1,131,048</u>	<u>1,030,243</u>
Noncurrent assets:		
Long-term investments, net	1,412,495	1,558,642
Capital assets	—	5
Total noncurrent assets	<u>1,412,495</u>	<u>1,558,647</u>
Total assets	<u>2,543,543</u>	<u>2,588,890</u>
<b>Liabilities</b>		
Current liabilities:		
Prizes payable	159,746	169,841
Unclaimed prizes	471,181	345,115
Due to education	251,558	260,381
Accounts payable and accrued liabilities	41,501	25,844
Unearned ticket sales	9,487	8,352
Compensated absences	1,487	1,554
Total current liabilities	<u>934,960</u>	<u>811,087</u>
Noncurrent liabilities:		
Compensated absences	314	341
Long-term prizes payable	1,298,381	1,324,714
Total noncurrent liabilities	<u>1,298,695</u>	<u>1,325,055</u>
Total liabilities	<u>2,233,655</u>	<u>2,136,142</u>
<b>Net Position</b>		
Restricted for future prizes	150,194	184,824
Investment in capital assets	—	5
Unrestricted	159,694	267,919
Total net position	<u>\$ 309,888</u>	<u>452,748</u>

See accompanying notes to basic financial statements.

## NEW YORK STATE LOTTERY

### Statements of Revenue, Expenses, and Changes in Net Position

Years ended March 31, 2014 and 2013

(In thousands)

	<b>2014</b>	<b>2013</b>
Operating revenue:		
Lottery revenue, net	\$ 9,226,490	8,934,288
Operating expenses:		
Prize expense	(4,407,924)	(4,218,988)
Retailer commissions	(1,290,202)	(1,236,613)
Gaming contractor fees	(219,745)	(209,321)
Instant ticket direct expenses	(18,871)	(21,771)
Telecommunications	(21,357)	(20,954)
Total direct expenses	(5,958,099)	(5,707,647)
Marketing and advertising expense	(89,779)	(89,995)
Personal service and fringe benefits	(32,343)	(30,244)
Other administrative costs	(8,465)	(16,295)
State agency charges	(2,784)	(1,458)
Depreciation	(5)	(38)
Total indirect expenses	(133,376)	(138,030)
Total operating expenses	(6,091,475)	(5,845,677)
Operating income	3,135,015	3,088,611
Nonoperating revenue (expenses):		
Investment (loss) income	(35,364)	107,719
Other revenue (expense), net	1,340	(279)
Investment expense, net	(70,893)	(68,827)
Total nonoperating revenue (expense)	(104,917)	38,613
Income before required allocation	3,030,098	3,127,224
Required allocation for aid to education	(3,172,958)	(3,045,774)
Change in net position	(142,860)	81,450
Net position beginning of year	452,748	371,298
Net position end of year	\$ 309,888	452,748

See accompanying notes to basic financial statements.

## NEW YORK STATE LOTTERY

### Statements of Cash Flows

Years ended March 31, 2014 and 2013

(In thousands)

	2014	2013
Operating activities:		
Cash received from net lottery revenue	\$ 9,220,869	8,999,587
Cash payments for prizes	(4,405,534)	(4,306,257)
Cash payments for commissions	(1,290,265)	(1,236,601)
Cash payments for contractor fees	(219,410)	(208,686)
Cash payments for telecommunications	(21,357)	(20,954)
Cash payments for instant ticket direct expenses	(19,020)	(21,963)
Cash payments for other operating expenses	(133,144)	(131,556)
Other cash receipts (payments)	1,340	(279)
Net cash provided by operating activities	3,133,479	3,073,291
Investing activities:		
Proceeds from investment maturities	135,965	144,427
Purchases of investments	(114,693)	(171,461)
Proceeds from investment sales	73,317	—
Interest on cash and cash equivalents and investments	24,868	25,329
Net cash provided by (used in) by investing activities	119,457	(1,705)
Noncapital financing activities:		
Cash transfer to State for Aid to Education	(3,181,781)	(3,052,979)
Cash received from State General Fund for Lottery Aid Guarantee	—	40,000
Net cash used in noncapital financing activities	(3,181,781)	(3,012,979)
Net increase in cash and cash equivalents	71,155	58,607
Cash and cash equivalents, beginning of year	444,837	386,230
Cash and cash equivalents, end of year	\$ 515,992	444,837
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 3,135,015	3,088,611
Adjustments to reconcile operating income to net cash provided by operating activities:		
Other cash receipts (payments)	1,340	(279)
Depreciation	5	38
Change in operating assets and liabilities:		
(Increase) decrease in accounts receivable, net	(37,561)	28,212
Increase in ticket inventory	(763)	(387)
Decrease in prizes payable	(107,321)	(51,821)
Increase in unclaimed prizes	126,066	10,005
Decrease in compensated absences	(94)	(532)
Increase in accounts payable and accrued liabilities	15,657	694
Increase (decrease) in unearned ticket sales	1,135	(1,250)
Net cash provided by operating activities	\$ 3,133,479	3,073,291
Noncash investing activities:		
(Decrease) increase in unrealized gains on investments	\$ (108,230)	37,592
Amortization of investment discount	41,259	44,832

See accompanying notes to basic financial statements.

# NEW YORK STATE LOTTERY

## Notes to Basic Financial Statements

March 31, 2014 and 2013

### (1) Summary of Significant Accounting Policies

The New York State Lottery (Lottery) was established in 1967. In 1976, the Lottery was placed under 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). On February 1, 2013, the Division of Lottery was merged with the New York State Racing and Wagering Board into a single oversight entity called the New York State Gaming Commission, which was given responsibility to administer traditional and video lottery games as part of its overall responsibility for regulation and enforcement of gaming activity in New York. 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 applies all applicable Governmental Accounting Standards Board (GASB) pronouncements and prepares its financial statements under the economic resources measurement focus, whereby all inflows, outflows and balances affecting net position are reported, and 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 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 unearned 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.

##### (iii) Video Gaming

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

## NEW YORK STATE LOTTERY

### Notes to Basic Financial Statements

March 31, 2014 and 2013

**(b) Prize Expense**

The Lottery recognizes prize expense for draw games equivalent to the actual prize liability incurred for each drawing. Prize expense for instant games is recognized when instant books are activated by retailers and is based on the percentage of sales allocated to prizes for each game. Video lottery revenue is reported net of prizes, so prize expense is not recognized on these games. Prize expense is adjusted accordingly for any prizes unclaimed within the time period allowed by law.

**(c) 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).

**(d) 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.

**(e) 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 five Instant Games per year with at least 10% for educational purposes. 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,

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### Notes to Basic Financial Statements

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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 five Instant Games per year with up to 75% allocated to prizes. 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, the video lottery administrative allocation does not include commissions and fees which are described separately in note 1c. Any excess of the maximum allocation over actual administrative expenses is allocated to education. Such allocations amounted to approximately \$455,696,000 and \$433,097,000 for fiscal years 2014 and 2013, respectively. Administrative expenses incurred by the Lottery represent telecommunications, advertising, salary and other operating costs.

**(f) *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.

**(g) *Investments***

Investments, consisting of U.S. Government-backed obligations (zero coupon bonds and stripped Government securities) and New York City Transitional Finance Authority 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.

**(h) *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.

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**(i) 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, 2014 and 2013 (in thousands).

	<u>2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>2014</u>
Leasehold improvements:							
Cost	\$ 4,526	—	—	4,526	—	—	4,526
Accumulated depreciation	(4,526)	—	—	(4,526)	—	—	(4,526)
Net value	—	—	—	—	—	—	—
Equipment:							
Cost	26,018	—	(23,996)	2,022	—	(111)	1,911
Accumulated depreciation	(25,975)	(38)	23,996	(2,017)	(5)	111	(1,911)
Net value	43	(38)	—	5	(5)	—	—
Total	\$ 43	(38)	—	5	(5)	—	—

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.

**(j) 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 position and made available for future prizes.

**(k) Unclaimed Prizes**

Unclaimed prizes at March 31, 2014 and 2013 were \$471,181,000 and \$345,115,000, respectively. Prizes unclaimed for one year after the drawing date (lapsed) are forfeited by the ticket holder. Total prizes lapsed amounted to approximately \$67,543,000 and \$65,235,000 for fiscal years 2014 and 2013, respectively. These forfeited prizes are netted against prize expense in the Statements of Revenue, Expense, and Changes in Net Position.

Under State Tax Law Section 1614, the Lottery retains forfeited prizes for supplemental prizes in subsequent lottery games. During the fiscal years 2014 and 2013, these supplemental prizes were

## NEW YORK STATE LOTTERY

### Notes to Basic Financial Statements

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

**(l) *Restricted Net Position***

Restricted net position 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.

**(m) *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 \$504,781,000 and \$437,229,000 at March 31, 2014 and 2013, 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, 2014 and 2013, the amount of sole custody accounts included in cash and cash equivalents related to the sole custody accounts were \$11,210,000 and \$7,608,000, 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 Transitional Finance Authority 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, 2014 and 2013 was \$1,539,410,000 and \$1,694,184,000, respectively. During fiscal years 2014 and 2013, approximately \$41,259,000 and \$44,832,000, respectively, of amortized discount was included in investment income.

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

		<u>2014</u>	<u>2013</u>
Maturity value	\$	1,769,887	1,839,976
Unamortized discount		<u>(375,496)</u>	<u>(399,042)</u>
Total at amortized cost		1,394,391	1,440,934
Less investments, maturing within one year, at amortized cost		<u>123,974</u>	<u>132,524</u>
Long-term investments, at amortized cost	\$	<u><u>1,270,417</u></u>	<u><u>1,308,410</u></u>

Maturities of the investments in each of the five fiscal years following March 31, 2014, and five year incremental totals thereafter, are as follows (in thousands):

		<u>Maturities</u>	<u>Interest due</u>	<u>Total</u>
2015	\$	127,118	23,622	150,740
2016		108,885	23,622	132,507
2017		96,037	23,622	119,659
2018		96,824	23,063	119,887
2019		96,678	22,432	119,110
2020 – 2024		471,922	99,705	571,627
2025 – 2029		292,832	75,659	368,491
2030 – 2034		119,050	62,692	181,742
2035 – 2039		198,010	45,922	243,932
2040 – 2044		162,531	2,663	165,194
	\$	<u><u>1,769,887</u></u>	<u><u>403,002</u></u>	<u><u>2,172,889</u></u>

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 Transitional Finance Authority municipal bonds. The credit ratings of the Lottery's investments as published by Moody and Standard & Poors are included on the next page for those investments where credit ratings were available.

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 generally to hold investment securities to maturity, at which time the fair value of the investment is equal to its stated maturity value.

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As of March 31, 2014 and 2013, the Lottery had the following investments and maturities (amounts in thousands):

Investment type	2014 Fair value	Moody Credit rating	S&P Credit rating	2014		
				Investment maturities		
				Less than five years	5 years to 10 years	More than 10 years
U.S. Treasury Strips	\$ 595,898	Aaa	N/A	\$ 225,284	148,651	221,963
New York City Transitional Finance Authority Bonds Agency for International Development Bonds	501,712	Aa1	AAA	47,437	106,527	347,748
	<u>441,800</u>	Aaa	AA+	<u>243,721</u>	<u>159,725</u>	<u>38,354</u>
Total	<u>\$ 1,539,410</u>			<u>\$ 516,442</u>	<u>414,903</u>	<u>608,065</u>

Investment type	2013 Fair value	Moody Credit rating	S&P Credit rating	2013		
				Investment maturities		
				Less than five years	5 years to 10 years	More than 10 years
U.S. Treasury Strips	\$ 658,859	Aaa	N/A	\$ 221,347	196,350	241,162
New York City Transitional Finance Authority Bonds Agency for International Development Bonds	547,348	Aa1	AAA	42,752	105,602	398,994
	<u>487,977</u>	Aaa	AA+	<u>286,655</u>	<u>143,817</u>	<u>57,505</u>
Total	<u>\$ 1,694,184</u>			<u>\$ 550,754</u>	<u>445,769</u>	<u>697,661</u>

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):

	2014	2013
Total obligation	\$ 2,229,061	2,343,003
Unamortized discount	<u>(770,934)</u>	<u>(848,448)</u>
Total carrying amount	1,458,127	1,494,555
Less prizes payable within one year	<u>159,746</u>	<u>169,841</u>
Long-term prizes payable	<u>\$ 1,298,381</u>	<u>1,324,714</u>

**NEW YORK STATE LOTTERY**

Notes to Basic Financial Statements

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The amortized discount on the prizes payable is based on interest rates which range from 0.03% to 8.49% 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 Position and amounted to \$70,893,000 and \$68,827,000 for fiscal years 2014 and 2013, respectively.

The aggregate amount of prizes payable due in each of the five fiscal years following March 31, 2014, and the five year incremental totals thereafter, is as follows (in thousands):

2015	\$	151,946
2016		133,705
2017		119,057
2018		119,733
2019		120,345
2020 – 2024		571,409
2025 – 2029		378,816
2030 – 2034		204,881
2035 – 2039		120,335
2040 – 2044		97,334
2045 – 2049		79,023
2050 – 2054		56,081
Thereafter		76,396
	\$	<u>2,229,061</u>

**(5) Long-Term Liabilities**

The Lottery's long-term liabilities, as of March 31, 2014 and 2013 are comprised of the following (in thousands):

	<u>Balance at March 31, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at March 31, 2014</u>	<u>Current portion</u>
Compensated absences (note 11)	1,895	1,470	(1,564)	1,801	1,487
Prizes payable (note 4)	1,494,555	123,927	(160,355)	1,458,127	159,746

  

	<u>Balance at March 31, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at March 31, 2013</u>	<u>Current portion</u>
Compensated absences (note 11)	2,427	1,458	(1,990)	1,895	1,554
Prizes payable (note 4)	1,477,549	186,259	(169,253)	1,494,555	169,841

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**(6) Aid to Education**

The required allocation and contribution transferred out for aid to education during the fiscal years ended March 31, 2014 and 2013 are as follows (in thousands):

	<b>2014</b>	<b>2013</b>
Cash transferred to education	\$ 3,181,781	3,052,979
Amount received from the State General Fund for Lottery aid guarantee	—	(40,000)
Net cash transferred to education	3,181,781	3,012,979
Prior year payable	(260,381)	(227,586)
Current year payable	251,558	260,381
Required allocation to education	\$ 3,172,958	3,045,774

**(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 depend 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 \$3,132,000 for 2014, \$2,649,000 for 2013, \$2,447,000 for 2012, 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 15.59%, 13.14%, and 12.03% of covered payroll for each of the years, respectively.

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**(8) Operating Income**

Composition of operating income for fiscal 2014 and 2013 by type of lottery game is as follows (in thousands):

	<b>2014</b>					<b>Net</b>
	<b>Expenses</b>					
	<b>Revenue</b>	<b>Prizes**</b>	<b>Commissions</b>	<b>Fees</b>	<b>Instant direct expense</b>	
Mega Millions	\$ 400,480	(203,464)	(23,720)	(4,113)	—	169,183
Lotto	94,563	(57,075)	(5,185)	(1,160)	—	31,143
Take 5	256,071	(127,364)	(15,364)	(2,309)	—	111,034
Pick 10	29,393	(15,140)	(1,764)	(265)	—	12,224
Numbers	873,845	(444,830)	(52,431)	(8,131)	—	368,453
Win 4	831,156	(401,267)	(49,869)	(7,746)	—	372,274
Sweet Million	32,565	(10,751)	(1,954)	(294)	—	19,566
Powerball	462,974	(214,803)	(27,778)	(4,484)	—	215,909
Promo Game	1,832	(768)	(110)	(16)	—	938
Instants	3,677,133	(2,511,112)	(221,886)	(41,064)	(18,871)	884,200
Quick Draw	654,158	(422,691)	(39,250)	(7,634)	—	184,583
Total traditional lottery	7,314,170	(4,409,265)	(439,311)	(77,216)	(18,871)	2,369,507
Video gaming	1,912,320 *	1,341	(850,891)	(142,529)	—	920,241
	<u>\$ 9,226,490</u>	<u>(4,407,924)</u>	<u>(1,290,202)</u>	<u>(219,745)</u>	<u>(18,871)</u>	3,289,748
Telecommunications						(21,357)
Other operating expenses						<u>(133,376)</u>
Total operating income						<u>\$ 3,135,015</u>

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

Credits played	\$ 32,348,056
Credits won	<u>(30,435,736)</u>
Net machine income	<u>\$ 1,912,320</u>

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

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2013						
Expenses						
	Revenue	Prizes**	Commissions	Fees	Instant direct expense	Net
Mega Millions	\$ 254,432	(114,353)	(14,968)	(3,211)	—	121,900
Lotto	110,026	(34,318)	(6,069)	(1,319)	—	68,320
Take 5	266,031	(133,211)	(15,962)	(2,440)	—	114,418
Pick 10	30,103	(14,534)	(1,806)	(276)	—	13,487
Numbers	847,203	(394,894)	(50,832)	(7,879)	—	393,598
Win 4	793,543	(359,400)	(47,613)	(7,386)	—	379,144
Sweet Million	35,054	(17,625)	(2,103)	(322)	—	15,004
Powerball	468,404	(242,620)	(28,104)	(4,986)	—	192,694
Instants	3,724,194	(2,534,890)	(223,449)	(40,734)	(21,771)	903,350
Quick Draw	579,929	(374,147)	(34,796)	(6,359)	—	164,627
Total traditional lottery	7,108,919	(4,219,992)	(425,702)	(74,912)	(21,771)	2,366,542
Video gaming	1,825,369 *	1,004	(810,911)	(134,409)	—	881,053
	<u>\$ 8,934,288</u>	<u>(4,218,988)</u>	<u>(1,236,613)</u>	<u>(209,321)</u>	<u>(21,771)</u>	3,247,595
Telecommunications						(20,954)
Other operating expenses						<u>(138,030)</u>
Total operating income						<u>\$ 3,088,611</u>

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

Credits played	\$ 28,671,871
Credits won	<u>(26,846,502)</u>
Net machine income	<u>\$ 1,825,369</u>

\*\* 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

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employee retired. The percent also varies based on salary grade for those retiring on or after January 1, 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 are included within the financial statements of the State.

During the fiscal year ended March 31, 2014, and 2013 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, 2014 and 2013, the Lottery had between 170 and 148 retired and/or spouses of retired employees receiving these benefits with an annual pay-as-you-go cost of approximately \$1,622,000 and \$1,334,000, 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 \$1,801,000 and \$1,895,000 as of March 31, 2014 and 2013, respectively, and is recorded as a liability in the statements of net position.

#### **(12) Leases**

The Lottery has entered into operating leases for equipment and building space. Rental expense was approximately \$2,458,000 and \$2,447,000 in 2014 and 2013, respectively.

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Future minimum lease payments under all noncancelable leases having initial or remaining terms in excess of one year as of March 31, 2014 are as follows (in thousands):

	<b>Operating leases</b>
2015	\$ 2,303
2016	1,917
2017	1,235
2018	1,233
2019	1,019
2020 and thereafter	796
Total minimum payments required	\$ <u>8,503</u>

**(13) Commitments and Contingencies**

**(a) Contractual Arrangements**

The Lottery maintains a gaming network of approximately 17,500 retailer locations where all traditional lottery games are sold. Instant Game tickets are also sold through approximately 5,000 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 18,000 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.). These contracts are paid based on a contractual percentage of revenue, adjusted for units of service provided.

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**(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.