

NEW YORK LOTTERY

An Enterprise Fund of the State of New York



COMPREHENSIVE ANNUAL FINANCIAL REPORT 2018

For the Fiscal Years Ended March 31, 2018 and 2017





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Prepared by

Financial Management Unit



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September 27, 2018

To Readers of the New York State Gaming Commission's Comprehensive Annual Financial Report:

We are pleased to present the Comprehensive Annual Financial Report on the aid to education earning aspects (Traditional Lottery and Video Lottery) of the New York State Gaming Commission ("Commission") for the fiscal year ended March 31, 2018. This report has been prepared by the Financial Management Unit of the Commission. The Commission 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 enterprise portions of the Commission and the results of its operations for the period covered.

For the purposes of this Comprehensive Annual Financial Report, the financial results, positions, and activities of the Commission's Division of Lottery and Division of Gaming's Video Gaming Unit are referred to jointly as the Lottery. This combination is utilized since both operations are lottery based and statutorily provide aid to education in New York State. The placement of these two education supporting operations into different divisions of the Commission was effective on February 1, 2013.

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 Commission's organizational chart which lists principal officials and their positions within the agency. The Financial Section contains the Lottery's audited financial statements, the notes to the statements, required supplementary information, 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 State of New York and Lottery over the last 10 years.

The New York Lottery was established in 1967 as a result of a constitutional amendment. It is currently administered by the Division of Lottery, as part of the Commission. 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 mission of the Video Gaming Unit of the Gaming Division is to operate and administer the Video Lottery program games and central system to raise revenue for aid to education.

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 or other portions of the Commission.



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 to aid for 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.

In November 1978, a popular European game called “Lotto” was introduced in New York with an initial jackpot of \$250,000. A networked system of play was introduced in September 1980 and the excitement of “Lottomania” began in New York. Also in September 1980, the Daily Numbers three-digit game began, followed by 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. It was 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 Lottery retailer 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 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 and the game is now offered in 8,300 locations statewide in varied types of establishments.

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. In May 2002, the New York Lottery and the Ohio Lottery joined the participants of The Big Game and formed the new Mega Millions multi-jurisdictional game.

The first video lottery gaming facility in the State opened in January 2004. 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 eight racetracks and two off-track betting locations throughout the State.

In 2009, the Mega Millions consortium began discussions with the Multi-State Lottery Association, 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 second multi-state game allows the Lottery to offer New Yorkers the largest jackpot games in the nation four days per week.

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. The Commission has overall responsibility for regulation and enforcement of all gaming activity in New York State including horse racing, charitable gaming, and casino gaming. The Division of Lottery was given responsibility to administer all traditional lottery games while the Division of Gaming operates and administers the Video Lottery gaming program.

In June 2014, the Lottery launched Cash4Life, the first draw game in New York that offers “for-life” prizes at both the first- and second-prize levels. First prize is \$1,000 a day for life and second prize is \$1,000 a week for life. This multi-state game was launched with New Jersey and now a total of nine states participate in this game.

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 17,500 retailers. Current offerings include nine draw games, as well as the introduction of approximately 40 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, Virginia, Washington, and the Multi-State Lottery Association (Powerball). Players choose five numbers from a pool of 70 and one number from a pool of 25 numbers. A player wins the jackpot by matching all six winning numbers drawn. Prizes ranging from \$2 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 Tuesday and Friday. Mega Millions is also available by subscription. A **Megaplier** feature gives players a chance to increase their non-jackpot prizes up to five times. A **Just the Jackpot** option gives players the chance to win the jackpot only at a cost of three dollars for two plays.



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 69 and one number from a pool of 26 numbers. A player wins the jackpot by matching all six winning numbers drawn. 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 offers two plays 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.



CASH4LIFE is played by choosing five numbers from a pool of 60 and one number from a pool of 4 numbers. A player can win one of two jackpot prizes - a jackpot of \$1,000 a day for life by matching all six winning numbers drawn or a jackpot of \$1,000 a week for life by matching the first five numbers drawn. A player can also win other prizes by matching at least two of the winning 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 Monday and Thursday. This game was launched in June 2014. Cash4Life is also available by subscription.



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. An **Instant Win** feature also allows players to win up to \$500 instantly for an additional one dollar wager by matching one or more of their numbers to numbers randomly generated and printed on the ticket.



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 one or more of their Win 4 numbers to numbers randomly generated and printed on the ticket.



TAKE 5 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. An **Instant Win** feature also allows players to win prizes instantly for an additional one dollar wager by matching one or more of their Take 5 numbers to the numbers randomly generated and printed on the ticket.



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. Drawings are held every four minutes on a daily basis except for the half-hour from 3:30 a.m. to 4:00 a.m.



SCRATCH-OFF 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 (now Saratoga Casino Hotel) in Saratoga Springs. Since that date, the Lottery has opened nine additional video gaming facilities across the State (not including Nassau OTB video lottery terminals located at Resorts World Casino). As of March 31, 2018, nine of the ten facilities continue as Video Lottery Gaming operations, running a statewide total of approximately 18,700 video lottery terminals. Tioga Downs Casino converted to a commercial casino on December 1, 2016.

Video Lottery Gaming was initially conducted 16 hours per day at each gaming facility, but legislation effective August 11, 2010 allowed an additional four hours per day. Most 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. New York also offers electronic table games in some locations which use mechanical devices or computerized random number generators to determine results for groups of players. By statute, video lottery games must pay out a minimum of 90% in prizes.

New York State Video Gaming Facility Locations





Resorts World Casino New York City is located at Aqueduct Racetrack in Queens County. Owned by the State of New York and operated by Genting NY, LLC, Resorts World Casino opened on October 28, 2011, and operates approximately 5,545 video gaming machines. Pursuant to an agreement with Nassau Regional Off-Track Betting Corp (Nassau OTB), Resorts World Casino also houses and operates up to 1,000 video lottery terminals for Nassau OTB.



Empire City Casino at Yonkers Raceway is located in the city of Yonkers. Owned and operated by Yonkers Racing Corp., Empire City Casino opened on October 11, 2006, and operates approximately 5,200 video lottery terminals.



Saratoga Casino Hotel is located in the city of Saratoga Springs. Owned and operated by Saratoga Casino Holdings, LLC, Saratoga Casino Hotel opened on January 28, 2004, and operates 1,706 video lottery terminals.



Monticello Casino & Raceway is located in the village of Monticello. Owned and operated by Empire Resorts, Monticello Casino & Raceway, Inc. opened on June 30, 2004, and operates 1,110 video lottery terminals.



Finger Lakes Gaming & Racetrack is located in the town of Farmington. Owned and operated by Delaware North Inc., Finger Lakes Gaming & Racetrack opened on February 18, 2004, and operates 1,135 video lottery terminals.



Hamburg Gaming at the Fairgrounds is located in the town of Hamburg. Owned by the Erie County Agricultural Society and operated by Delaware North Inc., Hamburg Gaming opened on March 17, 2004, and operates 898 video lottery terminals.



Vernon Downs Casino & Hotel is located in the village of Vernon. Owned and operated by American Racing & Entertainment LLC, Vernon Downs Casino opened on October 26, 2006, and operates 767 video lottery terminals.



Batavia Downs Gaming is located in the city of Batavia. Owned and operated by Western Regional Off-Track Betting Corporation, Batavia Downs Gaming opened on May 18, 2005, and operates 838 video lottery terminals.



Jake's 58 Hotel & Casino is located in the village of Islandia. Owned by Suffolk Regional Off-Track Betting Corp. and operated by Delaware North Inc., Jake's 58 Hotel & Casino opened on February 27, 2017, and operates 1,000 video lottery terminals.



New York Economic Outlook

As of June 2018, New York’s unemployment rate was 4.2%. This was down 0.4 percentage points from the 4.6% unemployment rate in June 2017. Approximately 410,000 are unemployed from a work force of approximately 9.8 million. The five-year history of New York State unemployment rates are listed in the following table (source: New York State Department of Labor).

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ann Avg
2018	5.1%	5.1%	4.8%	4.3%	3.7%	4.2%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2017	5.2%	5.3%	4.7%	4.4%	4.4%	4.6%	4.9%	4.9%	4.6%	4.4%	4.4%	4.4%	4.7%
2016	5.3%	5.3%	5.0%	4.6%	4.3%	4.7%	5.1%	5.0%	4.9%	4.8%	4.5%	4.5%	4.8%
2015	6.4%	6.2%	5.6%	5.2%	5.3%	5.2%	5.4%	5.0%	4.7%	4.7%	4.8%	4.7%	5.3%
2014	7.4%	7.6%	7.1%	6.0%	6.2%	6.2%	6.5%	6.3%	5.8%	5.7%	5.8%	5.5%	6.3%

New York is currently above the national unemployment rate, which dropped by 0.3 percentage points from a year ago to 4% in June 2018. New York’s unemployment rate increased to 5.1% in January from a low of 4.4% in December of 2017. It has decreased to 4.2% as of June 2018. All unemployment figures above were provided by the New York State Department of Labor.

As part of the Lottery’s long-term financial planning, the Lottery assists the New York State Division of the Budget in preparing Traditional Lottery and Video Lottery revenue estimates to be used in the State’s five-year financial plan.

Financial Information

Internal Controls

The Commission is required to maintain a system of internal controls to safeguard assets, prevent fraud and abuse, and ensure accurate financial information. To this end, the Commission has established an Internal Controls Unit that reports directly to the Internal Control Officer. Standards for internal controls, as issued by the New York State Office of the State Comptroller, are posted to the Commission intranet for all employees to access. Also posted are the agency’s Internal Control Guidelines, which provide executive support for the program and clear direction on staff responsibilities in carrying out the program. All managers conduct annual internal control reviews within their units. During these reviews, risk is assessed and controls are documented, evaluated, and tested. The Commission annually certifies the effectiveness of its Internal Controls program to the New York State Division of Budget.

The Commission’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 Commission 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 Commission 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, 2018, administrative surplus amounted to \$426.45 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-backed 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, 2018, the accrued value of the Lottery's installment prizes payable was \$1.283 billion, with \$131.5 million payable within one year and \$1.151 billion classified as long-term.

Financial Policy Changes

The Governmental Accounting Standards Board (GASB) issued Statement No. 82, *Pension Issues an Amendment of GASB Statements No. 67, No. 68, and No. 73* (GASB 82). This statement addresses certain issues that have been raised with respect to GASB Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, GASB 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. On April 1, 2017, the Lottery adopted and implemented GASB 82, and as of March 31, 2018, there was no material impact to the financial statements as a result of adopting and implementing GASB 82.

Independent Audit

The New York Lottery's annual financial statements are audited by a certified public accounting firm. The statements include pertinent footnotes, required supplementary information and Management's Discussion and Analysis. The statements for the year ended March 31, 2018 were audited by Mitchell & Titus, LLP. The independent auditor's report and the financial statements are included in the Financial Section of this report.



Social Responsibility

As a member of the World Lottery Association (WLA) since 2009, the New York Lottery has been a strong supporter of the WLA's Responsible Gaming Framework which outlines the actions a gaming operator must undertake to demonstrate its commitment to globally accepted Responsible Gaming best practices. The New York Lottery demonstrates its commitment to Responsible Gaming by making it an integral part of our daily operations in the best interest of our players, our beneficiary, and all New Yorkers. The New York Lottery's evolving Responsible Gaming Program is rooted in the following WLA principles:

- We take reasonable and balanced measures to meet our objectives while protecting vulnerable groups.
- We ensure our practices and procedures reflect a combination of government regulations, operator self-regulation, and individual responsibility.
- We develop our practices concerning Responsible Gaming-related issues on the fullest possible understanding of relevant information and analysis of documented research.
- We work with stakeholders to share information, develop research, and promote Responsible Gaming as broadly as possible, and encourage a better understanding of the social impact of gaming.
- We promote only legal and responsible gaming in all aspects of our activities, including the development, sale, and marketing of our products and activities, and make reasonable effort to ensure our agents do the same.
- We provide the public with information in an accurate and balanced manner to enable individuals to make informed choices.

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, 2017. 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 Certificate of Achievement Program's requirements 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 Commission staff.

Respectfully submitted,

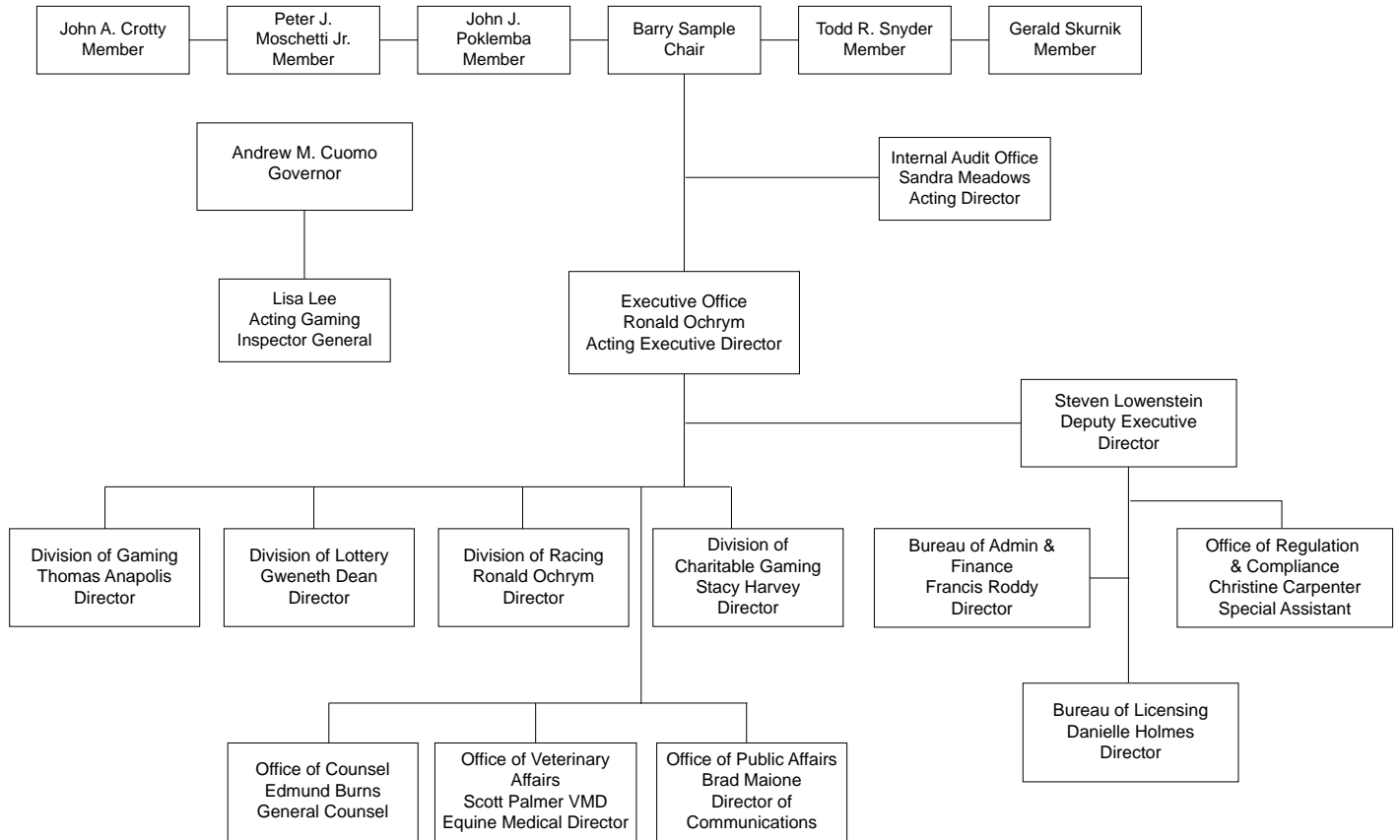
A handwritten signature in black ink, reading "Frank L. Roddy, Jr.", written over a horizontal line.

Frank L. Roddy, Jr.
Director of Administration & Finance

A handwritten signature in black ink, reading "Gweneth Dean", written over a horizontal line.

Gweneth Dean
Director, Division of the Lottery

New York State Gaming Commission Organization Chart





Certificate of Achievement



Government Finance Officers Association

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, 2017

Christopher P. Morill

Executive Director/CEO



INDEPENDENT AUDITOR'S REPORT

Gaming Commissioners and Senior Management
The New York State Gaming Commission

Report on the Financial Statements

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, 2018 and 2017, and the related statements of revenue, expenses, and change in net position and cash flows for the years then ended, and the related notes to the financial statements which collectively comprise the Lottery's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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.

Auditor's 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 audits 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 auditor's 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.

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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 financial position of the New York State Lottery as of March 31, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of 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, 2018 and 2017, the change 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the required schedules of the Lottery's proportionate share of the net pension liability and the Lottery's contributions for the New York State and Local Employees' Retirement System on pages 16 through 21 and 50 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.



Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Lottery's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Mitchell Titus, LLP

July 13, 2018



MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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 ended March 31, 2018 and 2017. 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 ended March 31, 2018 and 2017 have been prepared in accordance with accounting principles generally accepted in the United States of America.

FINANCIAL HIGHLIGHTS

- New York Lottery revenues totaled \$9.974 billion, while net proceeds earned for Lottery Aid to Education reached \$3.372 billion for fiscal year 2018.
- New York Lottery revenues, net in fiscal year 2018 were greater than the net revenues of 2017 by \$297.8 million, or 3.1%. In fiscal year 2017, the annual revenue decreased by \$14.8 million, or 0.2%.
- Net proceeds earned for Lottery Aid to Education in fiscal year 2018 were greater than the net proceeds of 2017 by \$104 million, or 3.2%. Comparatively, the annual earnings for education in fiscal year 2017 were less than the net proceeds of 2016 by \$33.9 million, or 1.0%.
- Prize expense increased by \$176.8 million, or 3.8%, during fiscal year 2018. Prize expense increased by \$9.4 million or 0.2% during fiscal year 2017. Prize expense generally follows the changes occurring in sales of the corresponding games.
- Operating income increased by \$81.8 million, or 2.5%, during fiscal year 2018. Operating income decreased by \$30.4 million, or 0.9%, during fiscal year 2017.
- Nonoperating expenses decreased by \$41.6 million during fiscal year 2018 after increasing by \$47.1 million during fiscal year 2017. 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) increased by \$37.9 million in fiscal year 2018 after increasing by \$23.9 million in fiscal year 2017.

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 2018 and 2017:



MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

OVERVIEW OF FINANCIAL STATEMENTS *(continued)*

Statements of Net Position – This statement provides information on the nature and amount of the Lottery's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position at the close of fiscal years 2018 and 2017. The relationship of assets and deferred outflows of resources to liabilities and deferred inflows of resources 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.

Statements of Revenue, Expenses, and Changes in Net Position – This statement reflects the Lottery's operating and nonoperating revenues and expenses and the change in net position for the 2018 and 2017 fiscal years.

Statements of Cash Flows – This statement 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 for the 2018 and 2017 fiscal years. 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 to the financial statements and this management's discussion and analysis provide information about the Lottery's overall financial condition.

This management's discussion and analysis is meant to be an introduction to the financial statements and to assist readers in understanding the results of the operations 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.

Following the notes to the financial statements are pension schedules, presented as Required Supplementary Information, which provide details on the Lottery's net pension liability and contributions.

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 claimed but not yet 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.



MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)

OVERVIEW OF FINANCIAL STATEMENTS (continued)

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

FINANCIAL ANALYSIS

Summary of Net Position – The comparative summary of net position represents the Lottery’s financial position as of the fiscal years 2018, 2017, and 2016 (in millions):

	FY 2018	FY 2017	FY 2016	FY 2018 vs. FY 2017		FY 2017 vs. FY 2016	
				Dollar change	Percent change	Dollar change	Percent change
Capital assets	\$ -	\$ -	\$ -	\$ -	- %	\$ -	- %
Other assets	2,556	2,572	2,711	(16)	(0.6)	(139)	(5.1)
Total assets	2,556	2,572	2,711	(16)	(0.6)	(139)	(5.1)
Total deferred outflows of resources	5	9	-	(4)	(44.4)	9	-
Current liabilities	1,051	1,000	1,078	51	5.1	(78)	(7.2)
Noncurrent liabilities	1,158	1,214	1,231	(56)	(4.6)	(17)	(1.4)
Total liabilities	2,209	2,214	2,309	(5)	(0.2)	(95)	(4.1)
Total deferred inflows of resources	1	1	-	-	-	1	-
Restricted net position	200	184	157	16	8.7	27	17.2
Unrestricted net position	151	182	245	(31)	(17.0)	(63)	(25.7)
Total net position	\$ 351	\$ 366	\$ 402	\$ (15)	(4.1)%	\$ (36)	(9.0)%

Capital Assets – Capital assets consist of equipment and leasehold improvements. During fiscal years 2018 and 2017, there were no changes in capital assets. Additional information about the Lottery’s capital assets can be found in Note 1 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 2018, other assets decreased by \$15.3 million, which represented a decrease of 0.6% from the previous year. This decrease was primarily a result of a decrease in long-term investments due to \$103 million of investment maturities and no purchases during fiscal year 2018. In fiscal year 2017, other assets decreased by \$139.5 million, which represented a decrease of 5.1% from the previous year.

Deferred Outflows of Resources – Deferred outflows of resources relate to deferred pension costs determined in accordance with GASB 68 and decreased by \$4.4 million in fiscal year 2018, which was a 48.2% decrease from the previous year and was the result of the difference between projected and actual investment earnings on pension investments.

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 \$51.1 million during fiscal year 2018. This change can be compared to the fiscal year ended March 31, 2017 when there was a \$78.6 million annual decrease in total current liabilities.



MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)

FINANCIAL ANALYSIS *(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, pension obligations and unused employee vacation leave. During fiscal year 2018, noncurrent liabilities decreased by \$54.9 million, with the decrease occurring primarily in the category of long-term prizes payable. During fiscal year 2017, noncurrent liabilities decreased by \$18.0 million, with the decrease 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 financial statements.

Deferred Inflows of Resources – Deferred inflows of resources relate to deferred pension costs determined in accordance with GASB 68 and decreased by \$0.2 million in fiscal year 2018, which was a 21.4% decrease from the previous year.

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, Mega Millions or Cash 4 Life jackpot or contribute toward a created but unclaimed instant ticket prize. These amounts are available by statute for this purpose.

Unrestricted net position listed on the statement of net position is largely the cumulative result of increased fair 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.

Summary of Revenue, Expenses, and Changes in Net Position – The following summary compares the Lottery’s revenues, expenses and changes in net position for the fiscal years 2018, 2017 and 2016 (in millions).

	FY 2018	FY 2017	FY 2016	FY 2018 vs. FY 2017		FY 2017 vs. FY 2016	
				Dollar change	Percent change	Dollar change	Percent change
<i>Operating revenue</i>							
Lottery revenue, net	\$ 9,974	\$ 9,676	\$ 9,691	\$ 298	3.1 %	\$ (15)	(0.2)%
<i>Operating expenses</i>							
Direct expenses	(6,478)	(6,256)	(6,245)	222	3.5 %	11	0.2%
Indirect expenses	(127)	(133)	(129)	(6)	(4.5)%	4	3.1%
Total operating expenses	(6,605)	(6,389)	(6,374)	216	3.4 %	15	0.2%
Operating income	3,369	3,287	3,317	82	2.5 %	(30)	(0.9)%
<i>Nonoperating income (expenses)</i>							
Nonoperating income	42	8	51	34	425.0 %	(43)	(84.3)%
Nonoperating expenses	(55)	(62)	(58)	(7)	(11.3)%	4	6.9%
Total nonoperating income (expenses)	(13)	(54)	(7)	41	75.9 %	(47)	(671.4)%
Income before required allocation	3,356	3,233	3,310	123	3.8 %	(77)	(2.3)%
Required allocation – contribution for aid to Education	(3,372)	(3,268)	(3,301)	104	3.2 %	(33)	(1.0)%
Change in net position	(16)	(35)	9	19	(54.3)%	(44)	(488.9)%
Net position beginning of year	367	402	393	(35)	(8.7)%	9	2.3%
Net position end of year	\$ 351	\$ 367	\$ 402	\$ (16)	(4.4)%	\$ (35)	(8.7)%



MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)

FINANCIAL ANALYSIS *(continued)*

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 ten licensed video lottery gaming facilities located in Saratoga, Monticello, Farmington, Hamburg, Batavia, Vernon, Yonkers, Suffolk and New York City (two facilities).

During fiscal year 2018, the Lottery achieved \$3.760 billion in draw sales, \$4.179 billion in instant sales, and \$2.035 billion in video lottery gaming net machine income for a total of \$9.974 billion, an increase of \$297.8 million, or 3.1%, over the previous fiscal year. During fiscal year 2017, the Lottery achieved \$3.678 billion in draw sales, \$4.001 billion in instant sales, and \$1.997 billion in video lottery gaming net machine income for a total of \$9.676 billion, a decrease of \$14.8 million, or 0.2%, over the previous fiscal year. Instant game sales have experienced growth in fiscal years 2018 and 2017. However, although draw game sales experienced a decline in 2017, there was growth in draw game sales in 2018.

The following table shows a comparison of the Lottery’s revenues by game and the percentage of total revenues by game for the fiscal years 2018, 2017, and 2016 (in millions):

Game	FY 2018		FY 2017		FY 2016	
	Revenue	Percent of total revenues	Revenue	Percent of total revenues	Revenue	Percent of total revenues
Mega Millions	\$ 312	3.1%	\$ 285	3.0%	\$ 255	2.6%
Lotto	71	0.7	79	0.8	97	1.0
Take 5	238	2.4	234	2.4	241	2.5
Numbers	887	8.9	898	9.3	903	9.3
Win 4	927	9.3	921	9.5	911	9.4
Quick Draw	793	8.0	794	8.2	787	8.1
Pick 10	30	0.3	29	0.3	30	0.3
Powerball	408	4.1	349	3.6	460	4.8
Other Multi-State Draw Games *	94	0.9	89	0.9	108	1.1
Instant	4,179	41.9	4,001	41.4	3,912	40.4
Subtotal traditional lottery	7,939	79.6	7,679	79.4	7,704	79.5
Video gaming, net **	2,035	20.4	1,997	20.6	1,987	20.5
Total revenues	\$ 9,974	100.0%	\$ 9,676	100.0%	\$ 9,691	100.0%

* Other Multi-State Draw Games include Cash 4 Life.

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

	FY 2018	FY 2017	FY 2016
Credits played	\$ 38,325	\$ 37,063	\$ 37,266
Credits won	(36,290)	(35,066)	(35,279)
Net machine income	\$ 2,035	\$ 1,997	\$ 1,987

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 between 74% and 75% of direct expenses during each of the three years being discussed. Prizes increased by \$176.8 million to \$4.816 billion in fiscal year 2018. At the same time, retailer commissions increased by \$42.8 million to \$1.388 billion and gaming contractor fees increased by \$2.1 million to \$229 million.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)****FINANCIAL ANALYSIS** *(continued)*

Prizes increased by \$9.4 million to \$4.639 billion in fiscal year 2017. At the same time, retailer commissions decreased by \$1 million to \$1.346 billion and gaming contractor fees decreased by \$0.3 million to \$226.8 million.

Indirect Expenses – Indirect expenses include marketing, state agency charges, personal services, fringe benefits and other administrative costs. These costs were \$127.3 million during fiscal year 2018, which was 4.5% lower than the prior year. Corresponding costs in fiscal year 2017 were \$133.4 million, which was 3.6% higher than in fiscal year 2016.

Nonoperating Revenues (Expenses) – Nonoperating revenues and expenses consist of miscellaneous income plus the net growth or decline in the fair value of investments used to fund long-term prizes. Investment income of \$31.3 million in 2018, loss of \$5.0 million in 2017, and income of \$49.5 million in 2016 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 amortized discount of prizes payable decreased by \$1.7 million from \$56.6 million in fiscal year 2017 to \$54.9 million in fiscal year 2018. The annual fair value adjustment of investments flows to the unrestricted net position balance on the statements of net position.

Income before Required Allocation and Change in Net Position – The revenues and expenses for fiscal year 2018 resulted in income before required allocation totaling \$3.356 billion. This amount consists of a required allocation for Aid to Education of \$3.372 billion that transfers out as a contribution for Aid to Education and an \$15.7 million decrease in net position for the year. The \$15.7 million decrease in net position is a combination of a \$16 million increase in net position restricted for prizes and a \$31.7 million decrease in unrestricted net position. The revenues and expenses for fiscal year 2017 resulted in income before required allocation totaling \$3.233 billion. This amount consists of a required allocation for Aid to Education of \$3.268 billion that transfers out as a contribution for Aid to Education and a \$35.1 million decrease in net position for the year. The \$35.1 million decrease in net position is a combination of a \$27.1 million increase in net position restricted for prizes and a \$62.2 million decrease 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 would not be expected unless there were an addition of new games or an expansion in gaming facilities.

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 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, 2018 and 2017

(In thousands)

	<u>2018</u>	<u>2017</u>
ASSETS		
<i>Current assets</i>		
Cash and cash equivalents	\$ 719,472	\$ 643,606
Accounts receivable, net	490,121	476,862
Instant ticket inventory	12,357	11,848
Investments	102,064	102,696
Total current assets	<u>1,324,014</u>	<u>1,235,012</u>
<i>Noncurrent assets</i>		
Long-term investments, net	1,232,136	1,336,488
Total noncurrent assets	<u>1,232,136</u>	<u>1,336,488</u>
Total assets	2,556,150	2,571,500
Deferred outflows of resources	<u>4,757</u>	<u>9,190</u>
Total assets and deferred outflows of resources	<u>2,560,907</u>	<u>2,580,690</u>
LIABILITIES		
<i>Current liabilities</i>		
Prizes payable	131,535	130,808
Unclaimed prizes	587,571	550,596
Due to Education	303,497	292,970
Accounts payable and accrued liabilities	16,887	14,641
Unearned ticket sales	10,321	9,610
Compensated absences	1,002	1,119
Total current liabilities	<u>1,050,813</u>	<u>999,744</u>
<i>Noncurrent liabilities</i>		
Compensated absences	202	225
Pension contribution payable	2,562	2,161
Net pension liability	4,839	8,324
Long-term prizes payable	1,151,104	1,202,856
Total noncurrent liabilities	<u>1,158,707</u>	<u>1,213,566</u>
Total liabilities	<u>2,209,520</u>	<u>2,213,310</u>
Deferred inflows of resources	<u>798</u>	<u>1,015</u>
Total liabilities and deferred inflows of resources	<u>2,210,318</u>	<u>2,214,325</u>
NET POSITION		
Restricted for future prizes	200,031	184,078
Unrestricted	150,558	182,287
Total net position	<u>\$ 350,589</u>	<u>\$ 366,365</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, 2018 and 2017

(In thousands)

	<u>2018</u>	<u>2017</u>
OPERATING REVENUE		
Lottery revenue, net	\$ 9,973,519	\$ 9,675,722
<i>Operating expenses</i>		
Prize expense, net	(4,815,903)	(4,639,092)
Retailer commissions	(1,388,320)	(1,345,525)
Gaming contractor fees	(228,984)	(226,848)
Instant ticket direct expenses	(26,079)	(25,739)
Telecommunications	(18,612)	(18,588)
Total direct expenses	<u>(6,477,898)</u>	<u>(6,255,792)</u>
Marketing and advertising expense	(81,526)	(95,838)
Personal service and fringe benefits	(29,565)	(25,150)
Other administrative costs	(10,090)	(6,689)
State agency charges	(6,133)	(5,700)
Total indirect expenses	<u>(127,314)</u>	<u>(133,377)</u>
Total operating expenses	<u>(6,605,212)</u>	<u>(6,389,169)</u>
Operating income	<u>3,368,307</u>	<u>3,286,553</u>
NONOPERATING REVENUE (EXPENSES)		
Investment (loss) income	31,254	(4,973)
Other revenue, net	11,398	7,773
Investment expense, net	(54,867)	(56,613)
Total nonoperating expenses, net	<u>(12,215)</u>	<u>(53,813)</u>
Income before required allocation	3,356,092	3,232,740
Required allocation for aid to Education	<u>(3,371,868)</u>	<u>(3,267,883)</u>
Change in net position	(15,776)	(35,143)
Net position, beginning of year	<u>366,365</u>	<u>401,508</u>
Net position, end of year	<u>\$ 350,589</u>	<u>\$ 366,365</u>

See accompanying notes to basic financial statements.



NEW YORK STATE LOTTERY
Statements of Cash Flows
Years Ended March 31, 2018 and 2017
(In thousands)

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from net lottery revenue	\$ 9,948,242	\$ 9,635,989
Cash payments for prizes	(4,863,884)	(4,730,504)
Cash payments for commissions	(1,388,297)	(1,345,534)
Cash payments for contractor fees	(228,212)	(226,477)
Cash payments for telecommunications	(18,612)	(18,588)
Cash payments for instant ticket direct expenses	(26,413)	(27,915)
Cash payments for other operating expenses	(133,358)	(131,345)
Other cash receipts	11,398	7,773
Net cash provided by operating activities	<u>3,300,864</u>	<u>3,163,399</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from investment maturities	102,786	100,850
Purchases of investments	-	(52,245)
Interest on cash and cash equivalents and investments	33,557	28,189
Net cash provided by investing activities	<u>136,343</u>	<u>76,794</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash transfer to State for Aid to Education	(3,361,341)	(3,320,994)
Net cash used in noncapital financing activities	<u>(3,361,341)</u>	<u>(3,320,994)</u>
Net change in cash and cash equivalents	75,866	(80,801)
Cash and cash equivalents, beginning of year	643,606	724,407
Cash and cash equivalents, end of year	<u>\$ 719,472</u>	<u>\$ 643,606</u>
<i>Reconciliation of operating income to net cash provided by operating activities</i>		
Operating income	\$ 3,368,307	\$ 3,286,553
<i>Adjustments to reconcile operating income to net cash provided by operating activities</i>		
Other cash receipts	11,293	7,678
Investment expense	(54,867)	(56,613)
<i>Change in operating assets, deferred outflows, liabilities and deferred inflows</i>		
Change in accounts receivable, net	(13,259)	(21,419)
Change in ticket inventory	(509)	(1,575)
Change in prizes payable	(51,025)	(23,383)
Change in unclaimed prizes	36,975	(32,113)
Change in compensated absences	(140)	53
Change in deferred outflows	4,433	(8,748)
Change in net pension liability	(3,485)	6,441
Change in deferred inflows	(217)	1,015
Change in pension contribution payable	401	(506)
Change in accounts payable and accrued liabilities	2,246	6,219
Change in unearned ticket sales	711	(203)
Net cash provided by operating activities	<u>\$ 3,300,864</u>	<u>\$ 3,163,399</u>
<i>Noncash investing activities</i>		
Decrease in unrealized gains on investments	\$ (34,114)	\$ (66,157)
Amortization of investment discount	31,916	33,090

See accompanying notes to basic financial statements.

**NEW YORK STATE LOTTERY**

Notes to Financial Statements

Years Ended March 31, 2018 and 2017

NOTE 1 ORGANIZATION AND 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 represent 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.

Basis of Presentation

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:

Revenue Recognition

(i) Draw Games

Revenue from ticket sales for Lotto, Quick Draw, Take 5, Pick 10, Mega Millions, Powerball, Cash 4 Life, 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.

**NEW YORK STATE LOTTERY**

Notes to Financial Statements

Years Ended March 31, 2018 and 2017

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
*(continued)*Revenue Recognition *(continued)*

(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.

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.

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 New York State 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 full-service Lottery system 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. Video lottery terminal contractors receive a fee equal to a contractual percentage of each contractor's revenue or a fee per device, adjusted for the units of service provided. All other gaming contractors are paid fees based on the units of service provided (see Note 13).

**NEW YORK STATE LOTTERY**

Notes to Financial Statements

Years Ended March 31, 2018 and 2017

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
*(continued)*Accounts Receivable

Accounts receivable primarily represent 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 that 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.

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, 30% for multi-state games such as Mega Millions, Powerball, Cash 4 Life, 35% for Take 5, Numbers, Win-4, and Pick 10, 45% for Lotto 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, 55% for multi-state games such as Mega Millions, Powerball, Cash 4 Life, 50% for Take 5, Numbers, Win-4, and Pick 10, 40% for Lotto 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.

**NEW YORK STATE LOTTERY**

Notes to Financial Statements

Years Ended March 31, 2018 and 2017

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
*(continued)*Allocation of Revenue from Ticket Sales *(continued)*

- 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 (see previously within Commissions and Fees). Any excess of the maximum allocation over actual administrative expenses is allocated to education. Such allocations amounted to approximately \$512,648,584 and \$484,551,680 for fiscal years 2018 and 2017, respectively. Administrative expenses incurred by the Lottery represent telecommunications, advertising, salary and other operating costs.

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 (STIP), which is used for the temporary investment of funds not required for immediate payments.

Investments

Investments, consisting of U.S. Treasury bonds, U.S. Treasury strips, bonds guaranteed by U.S. Agency for International Development 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.

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.



NEW YORK STATE LOTTERY
Notes to Financial Statements
Years Ended March 31, 2018 and 2017

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

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 in the table below, by major class of asset, for the years ended March 31, 2018 and 2017 (in thousands).

	2016	Additions	Deletions	2017	Additions	Deletions	2018
<i>Leasehold improvements</i>							
Cost	\$ 4,526	\$ -	\$ -	\$ 4,526	\$ -	\$ -	\$ 4,526
Accumulated depreciation	(4,526)	-	-	(4,526)	-	-	(4,526)
Net value	-	-	-	-	-	-	-
<i>Equipment</i>							
Cost	1,911	-	-	1,911	-	-	1,911
Accumulated depreciation	(1,911)	-	-	(1,911)	-	-	(1,911)
Net value	-	-	-	-	-	-	-
Total	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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.

Prizes Payable

Lotto, Powerball, Mega Millions and Cash 4 Life 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 is recorded in restricted net position and made available for future prizes.

**NEW YORK STATE LOTTERY**

Notes to Financial Statements

Years Ended March 31, 2018 and 2017

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*(continued)*Unclaimed Prizes

Unclaimed prizes at March 31, 2018 and 2017 were \$587,571,000 and \$550,596,000, respectively. Prizes unclaimed for one year after the drawing date (lapsed) are forfeited by the ticket holder. Total prizes lapsed amounted to approximately \$84,685,000 and \$68,959,000 for fiscal years 2018 and 2017, respectively. These forfeited prizes are netted against prize expense in the statements of revenue, expense, and changes in net position.

Under New York State Tax Law Section 1614, the Lottery retains forfeited prizes for supplemental prizes in subsequent lottery games. During the fiscal years 2018 and 2017, these supplemental prizes were used for Mega Millions, Powerball, Cash 4 Life, Lotto, Quick Draw, Take 5, Numbers, Win 4, and various Instant Games.

Restricted Net Position

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America (U.S. GAAP) 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.

Adoption of New Accounting Pronouncements

During the year ended March 31, 2017, the Lottery adopted GASB Statement No. 72, *Fair Value Measurement and Application* (GASB 72). GASB 72 addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB 72 provides guidance for determining a fair value measurement for financial reporting purposes. GASB 72 also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

**NEW YORK STATE LOTTERY**

Notes to Financial Statements

Years Ended March 31, 2018 and 2017

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
*(continued)*Adoption of New Accounting Pronouncements *(continued)*

During the year ended March 31, 2017, the Lottery adopted GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB 76). The objective of GASB 76 is to identify—in the context of the current governmental financial reporting environment—the hierarchy of GAAP. The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. GASB 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. GASB 76 supersedes GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

During the year ended March 31, 2018, the Lottery adopted GASB Statement No. 82, *Pension Issues an Amendment of GASB Statements No. 67, No. 68, and No. 73* (GASB 82). This statement addresses certain issues that have been raised with respect to GASB Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, GASB 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. There was no material impact to the financial statements as a result of adopting and implementing GASB 82.

**NEW YORK STATE LOTTERY**

Notes to Financial Statements

Years Ended March 31, 2018 and 2017

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)Recently Issued GASB Pronouncements

The GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). GASB 75 replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for Other Postemployment Benefits (OPEB). The scope of GASB 75 addresses accounting and financial reporting for OPEB Plans that are provided to the employees of state and local governmental employers. GASB 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB plans, GASB 75 identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Footnote disclosure and required supplementary information requirements about defined benefit OPEB plans also are addressed. GASB 75 is effective for fiscal years beginning after June 15, 2017. Currently, the Lottery is evaluating the impact of GASB 75 on the financial statements.

During 2017, the GASB issued Statement No. 85 - *Omnibus 2017* ("GASB 85"). The objective of this Statement is to address practice issues that were identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Currently, the Lottery is evaluating the impact of this Statement on the financial statements and it is anticipated that there will be no material impact to the financial results from adopting and implementing GASB 85.

During 2017, the GASB issued Statement No.87 - *Leases* ("GASB 87"). The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and inflows of resources or outflows of resources recognized based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

**NEW YORK STATE LOTTERY**

Notes to Financial Statements

Years Ended March 31, 2018 and 2017

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*(continued)*Recently Issued GASB Pronouncements *(continued)*

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019 and earlier application is encouraged. Currently, the Lottery is evaluating the impact of this Statement on the financial statements and it is anticipated that there will be no material impact to the financial results from adopting and implementing GASB 87.

NOTE 2 CASH AND CASH EQUIVALENTS

Lottery deposits of cash and cash equivalents are made in accordance with New York State Finance Law Sections 92c and 98a and New York 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 New York State Finance Law, the accounts for prizes and administration earn interest through participation in a STIP 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 STIP is reported at amortized cost, which approximates fair value. The valuation of the STIP is derived from unobservable inputs (Level 3), which primarily include New York State data and market participant assumptions particular to New York State. The carrying amount of the joint custody accounts included in cash and cash equivalents were \$685,537,000 and \$618,175,000 at March 31, 2018 and 2017, respectively.

The Lottery also maintains sole custody accounts that are used for daily cash management purposes. Interest-bearing cash accounts are Level 1 financial instruments and are based on quoted prices for similar assets. The Lottery manages the investment of its cash balances to minimize its uninvested funds. At March 31, 2018 and 2017, the amount of sole custody accounts included in cash and cash equivalents was \$33,935,000 and \$25,431,000, 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.



NEW YORK STATE LOTTERY
 Notes to Financial Statements
 Years Ended March 31, 2018 and 2017

NOTE 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 U.S. Treasury bonds, U.S. Treasury strips, bonds guaranteed by U.S. Agency for International Development and New York City Transitional Finance Authority municipal bonds, which are guaranteed by the full faith and credit of the United States. The fair value of these investments at March 31, 2018 and 2017 was \$1,334,200,000 and \$1,439,184,000, respectively. During fiscal years 2018 and 2017, approximately \$31,916,000 and \$33,090,000, respectively, of amortized discount was included in investment income.

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

	<u>2018</u>	<u>2017</u>
Maturity value	\$ 1,508,666	\$ 1,611,453
Unamortized discount	<u>(293,865)</u>	<u>(325,781)</u>
Total at amortized cost	1,214,801	1,285,672
Less: Investments, maturing within one year, at amortized cost	<u>100,782</u>	<u>100,958</u>
Long-term investments, at amortized cost	<u><u>\$ 1,114,019</u></u>	<u><u>\$ 1,184,714</u></u>

Fair Value Measurement

The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels. Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for an asset or liability. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

Fair value of the Lottery's investments are measured by Level 1 inputs based upon quoted prices in active markets or Level 2 inputs based upon quoted prices for identical or similar assets in markets that are not active or other observable inputs such as interest rates and yield curves observable at commonly quoted intervals. There are no Level 3 investments at March 31, 2018 and 2017, respectively.

U.S. Government obligations, Bonds guaranteed by the U.S. Agency for International Development and New York City Transitional Finance Authority Bonds are valued at the closing price reported on the markets not actively traded.



NEW YORK STATE LOTTERY
Notes to Financial Statements
Years Ended March 31, 2018 and 2017

NOTE 3 INVESTMENTS (continued)

Fair Value Measurement (continued)

Balances and fair value measurements of the Lottery's investments at March 31 were as follows (in thousands):

Investments	2018		2017	
	Level 1	Level 2	Level 1	Level 2
U.S. Treasury Strips	\$ 4,771	\$ -	\$ 4,749	\$ -
U.S. Treasury Bonds	581,628	-	628,393	-
New York City Transitional Finance Authority Bonds	-	474,919	-	505,833
Bonds Guaranteed by U.S. Agency for International Development	-	272,882	-	300,209
Total investments	\$ 586,399	\$ 747,801	\$ 633,142	\$ 806,042

Maturities of the investments in each of the five fiscal years following March 31, 2018, and five-year incremental totals thereafter, are as follows (in thousands):

	<u>Maturities</u>	<u>Interest due</u>	<u>Total</u>
2019	\$ 102,656	\$ 22,432	\$ 125,088
2020	107,256	21,738	128,994
2021	106,775	20,901	127,676
2022	106,637	19,974	126,611
2023	92,046	19,001	111,047
2024–2028	364,496	79,695	444,191
2029–2033	178,789	64,972	243,761
2034–2038	169,628	52,411	222,039
2039–2043	238,182	7,950	246,132
2044–2048	42,201	-	42,201
	\$ 1,508,666	\$ 309,074	\$ 1,817,740

Credit risk is the risk that an issuer will not fulfill its obligations. The Lottery's policy is to follow New York State law which limits the investments that the Lottery can make and generally limits 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's and Standard & Poor's are included below for those investments where credit ratings were available.



NEW YORK STATE LOTTERY
Notes to Financial Statements
Years Ended March 31, 2018 and 2017

NOTE 3 INVESTMENTS (continued)

Fair Value Measurement (continued)

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.

As of March 31, 2018 and 2017, the Lottery had the following investments and maturities (amounts in thousands):

Investment Type	2018 Fair Value	Moody's Credit Rating	S&P Credit Rating	2018 Investment Maturities (Fair Value)		
				Less than Five Years	5 Years to 10 Years	More than 10 Years
				U.S. Treasury Strips	\$ 4,771	N/A
U.S. Treasury Bonds	581,628			218,910	136,766	225,952
New York City Transitional Finance Authority Bonds Bonds Guaranteed by U.S. Agency for International Development	474,919	Aa1	AAA	75,177	106,596	293,146
	272,882	N/A	N/A	181,579	91,303	-
Total	<u>\$ 1,334,200</u>			<u>\$ 475,666</u>	<u>\$ 339,436</u>	<u>\$ 519,098</u>

Investment Type	2017 Fair Value	Moody's Credit Rating	S&P Credit Rating	2017 Investment Maturities (Fair Value)		
				Less than Five Years	5 Years to 10 Years	More than 10 Years
				U.S. Treasury Strips	\$ 4,749	N/A
U.S. Treasury Bonds	628,393	N/A	N/A	244,253	145,208	238,932
New York City Transitional Finance Authority Bonds Bonds Guaranteed by U.S. Agency for International Development	505,833	Aa1	AAA	70,767	116,588	318,478
	300,209	N/A	N/A	175,989	103,485	20,735
Total	<u>\$ 1,439,184</u>			<u>\$ 491,009</u>	<u>\$ 365,281</u>	<u>\$ 582,894</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. 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.



NEW YORK STATE LOTTERY
Notes to Financial Statements
Years Ended March 31, 2018 and 2017

NOTE 4 PRIZES PAYABLE

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

	<u>2018</u>	<u>2017</u>
Total obligation	\$ 1,862,314	\$ 1,940,923
Unamortized discount	<u>(579,675)</u>	<u>(607,259)</u>
Total carrying amount	1,282,639	1,333,664
Less: Prizes payable within one year	<u>131,535</u>	<u>130,808</u>
Long-term prizes payable	<u><u>\$ 1,151,104</u></u>	<u><u>\$ 1,202,856</u></u>

The amortized discount on the prizes payable is based on interest rates ranging from 0.29% to 7.78% for fiscal years 2018 and 2017, and reflects 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 revenue, expenses, and changes in net position and amounted to \$54,867,000 and \$56,613,000 for fiscal years 2018 and 2017, respectively.

The aggregate amount of prizes payable due in each of the five fiscal years following March 31, 2018, and the five year incremental totals thereafter, is as follows (in thousands):

<u>Year</u>	<u>Amount</u>
2019	\$ 127,440
2020	127,127
2021	127,410
2022	125,589
2023	115,462
2024–2028	449,946
2029–2033	259,394
2034–2038	151,795
2039–2043	116,357
2044–2048	96,105
2049–2053	68,264
2054–2058	46,296
Thereafter	<u>51,129</u>
	<u><u>\$ 1,862,314</u></u>



NEW YORK STATE LOTTERY
Notes to Financial Statements
Years Ended March 31, 2018 and 2017

NOTE 5 LONG-TERM LIABILITIES

The Lottery's long-term liabilities as of March 31, 2018 and 2017 are comprised of the following (in thousands):

	Balance at March 31, 2017			Balance at March 31, 2018	
	Balance at March 31, 2017	Additions	Reductions	Balance at March 31, 2018	Current Portion
Compensated absences (Note 11)	\$ 1,344	\$ 1,006	\$ (1,146)	\$ 1,204	\$ 1,002
Pension contribution payable (Note 7)	2,152	757	-	2,909	347
Net pension liability (Note 7)	8,324	-	(3,485)	4,839	-
Prizes payable (Note 4)	1,333,664	74,416	(125,441)	1,282,639	131,535
Total	\$ 1,345,484	\$ 76,179	\$ (130,072)	\$ 1,291,591	\$ 132,884

	Balance at March 31, 2016			Balance at March 31, 2017	
	Balance at March 31, 2016	Additions	Reductions	Balance at March 31, 2017	Current Portion
Compensated absences (Note 11)	\$ 1,291	\$ 1,127	\$ (1,074)	\$ 1,344	\$ 1,119
Pension contribution payable (Note 7)	3,029	-	(877)	2,152	351
Net pension liability (Note 7)	1,883	6,441	-	8,324	-
Prizes payable (Note 4)	1,357,047	100,764	(124,147)	1,333,664	130,808
Total	\$ 1,363,250	\$ 108,332	\$ (126,098)	\$ 1,345,484	\$ 132,278

NOTE 6 AID TO EDUCATION

The required allocation and contribution transferred out for aid to Education during the fiscal years ended March 31, 2018 and 2017 are as follows (in thousands):

	2018	2017
Cash transferred to Education	\$ 3,361,341	\$ 3,320,994
Prior-year payable	(292,970)	(346,081)
Current-year payable	303,497	292,970
Required allocation to Education	\$ 3,371,868	\$ 3,267,883

NOTE 7 PENSION BENEFITS

Substantially all employees of the Lottery are members of the State and Local Employees' Retirement System (ERS). The program is 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.

**NEW YORK STATE LOTTERY**

Notes to Financial Statements

Years Ended March 31, 2018 and 2017

NOTE 7 PENSION BENEFITS *(continued)*

For purposes of determining net pension liability and other pension-related amounts, information about the fiduciary net position of ERS and additions to and deductions from the ERS fiduciary net position has been determined on the same basis reported by the System. The System issues a publicly available financial report that includes financial statements, expanded disclosures, and required supplementary information for the System. The report may be obtained by writing to the New York State and Local Retirement System, Office of the State Comptroller, 110 State Street, Albany, New York, 12244-0001, or at www.osc.state.ny.us/pension/cafr.htm.

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 \$3,414,000 for 2018 and \$2,896,000 for 2017, to cover required employer contributions for retirement benefits and equaled 100% of the required contribution in each of the respective years. These payments represent 19.46% and 16.47%, of covered payroll for each of the years, respectively.

Net Pension Liabilities and Other Pension-Related Amounts

The Lottery recognized a net pension liability of \$4,839,379 and \$8,324,434, at March 31, 2018 and 2017, respectively, for its proportionate share of the ERS net pension liability.

The State's proportionate share of the collective net pension liability reported at March 31, 2018, was measured as of March 31, 2017, and was determined using an actuarial valuation as of April 1, 2016, with update procedures used to roll forward the total pension liability to March 31, 2017. The State's proportion of the ERS net pension liability measured at March 31, 2017, was 43.2% for ERS, which was comparable with the proportions allocated to the State at March 31, 2016 of 42.5%. The State's proportion related to the plan was determined consistently with the manner in which contributions to the pension plan are determined. The State's total projected long-term contribution effort to ERS was compared to the total projected long-term contribution effort from all employers to ERS in order to determine the State's proportion of the plan's net pension liability.



NEW YORK STATE LOTTERY
 Notes to Financial Statements
 Years Ended March 31, 2018 and 2017

NOTE 7 PENSION BENEFITS *(continued)*

Net Pension Liabilities and Other Pension-Related Amounts *(continued)*

The Office of the State Comptroller provided the Lottery with its proportionate share of the ERS collective liability. The Statewide proportionate share of the ERS collective net pension liability measured at March 31, 2017 allocated to the Lottery enterprise fund was 0.12%, which is comparable with the allocation of the ERS collective net pension liability measured as of March 31, 2016 of 0.12%.

Actuarial Assumptions

The total pension liability for the March 31, 2017 measurement date was determined by using an actuarial valuation as of April 1, 2016, with update procedures used to roll forward the total pension liability to March 31, 2017. The total pension liability for the March 31, 2016 measurement date was determined by using an actuarial valuation as of April 1, 2015, with update procedures used to roll forward the total pension liability to March 31, 2016. The actuarial valuation for ERS used the following actuarial assumptions for the valuations as of April 1, 2016 and 2015:

Actuarial cost method	Entry age normal
Inflation	2.5%
Salary scale	3.8%
Investment rate of return, including inflation	7.0% compounded annually, net of investment expenses
Cost-of-living adjustments	1.3% annually
Decrements	Developed from the Plan's 2015 experience study for period April 1, 2010 through March 31, 2015
Mortality improvement	Society of Actuaries Scale MP-2014



NEW YORK STATE LOTTERY
 Notes to Financial Statements
 Years Ended March 31, 2018 and 2017

NOTE 7 PENSION BENEFITS (continued)

Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined in accordance with Actuarial Standard of Practice (ASOP) No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*. ASOP No. 27 provides guidance on the selection of an appropriate assumed investment rate of return. Consideration was given to expected future real rates of return (expected returns, net of pension plan investment expense and inflation) for equities and fixed income as well as historical investment data and plan performance. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized below:

Valuation as of April 1, 2016

Asset Class	Target Allocation	Long-term Expected Rate of Return
Domestic equity	36%	4.55%
International equity	14	6.35
Private equity	10	7.75
Real estate	10	5.80
Absolute return strategies	2	4.00
Opportunistic portfolio	3	5.89
Real estate	3	5.54
Bonds and mortgages	17	1.31
Cash	1	(0.25)
Inflation-indexed bonds	4	1.50
Total	100%	

Valuation as of April 1, 2015

Asset Class	Target Allocation	Long-term Expected Rate of Return
Domestic equity	38%	7.30%
International equity	13	8.55
Private equity	10	11.00
Real estate	8	8.25
Absolute return strategies	3	6.75
Opportunistic portfolio	3	8.60
Real estate	3	8.65
Bonds and mortgages	18	4.00
Cash	2	2.25
Inflation-indexed bonds	2	4.00
Total	100%	



NEW YORK STATE LOTTERY
 Notes to Financial Statements
 Years Ended March 31, 2018 and 2017

NOTE 7 PENSION BENEFITS *(continued)*

Discount Rate

The discount rate used to calculate the ERS total pension liability at March 31, 2018 and 2017 was 7.0%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the System’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the Lottery’s current period net pension liability using the current period discount rate assumption, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current assumption (in thousands):

<u>Lottery Net Pension Liability for Year Ended</u>	<u>1% Decrease (6.0%)</u>	<u>Current Assumption (7.0%)</u>	<u>1% Increase (8.0%)</u>
March 31, 2018	\$ 15,456	\$ 4,839	\$ (4,137)
March 31, 2017	\$ 18,771	\$ 8,324	\$ (502)



NEW YORK STATE LOTTERY
Notes to Financial Statements
Years Ended March 31, 2018 and 2017

NOTE 7 PENSION BENEFITS (continued)

Discount Rate (continued)

For the years ended March 31, 2018 and 2017, the Lottery recognized a net pension liability of \$4,839,379 and \$8,324,434, respectively, for its proportionate share of the ERS net pension liability. For the years ended March 31, 2018 and 2017, the Lottery recognized pension expense of \$2,776,951 and \$2,983,218, respectively, related to ERS, Deferred outflows of resources and deferred inflows of resources related to ERS are summarized from the following sources (in thousands):

<u>Deferred Outflows of Resources</u>	<u>2018</u>	<u>2017</u>
Difference expected and actual experience	\$ 121	\$ 42
Changes in assumptions	1,653	2,220
Net difference between projected and actual investment earnings on pension plan investments	968	4,939
Changes in proportion and differences between employer contributions and proportionate share of contributions	64	53
Contributions made subsequent to measurement date	1,951	1,936
Total Deferred Outflows of Resources	\$ 4,757	\$ 9,190

<u>Deferred Inflows of Resources</u>	<u>2018</u>	<u>2017</u>
Difference expected and actual experience	\$ 735	\$ 987
Changes in proportion and differences between employer contributions and proportionate share of contributions	63	28
Total Deferred Inflows of Resources	\$ 798	\$ 1,015

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions for Lottery will be recognized in pension expense as follows:

<u>Year</u>	<u>Amount</u>
2019	\$ 920,841
2020	920,841
2021	819,040
2022	(653,262)
2023	-



NEW YORK STATE LOTTERY
Notes to Financial Statements
Years Ended March 31, 2018 and 2017

NOTE 8 OPERATING INCOME

Composition of operating income for fiscal 2018 and 2017 by type of lottery game is as follows (in thousands):

	2018					Net
	Expenses					
	Revenue	Prizes**	Commissions	Fees	Instant Direct Expense	
Mega Millions	\$ 311,750	\$ (158,775)	\$ (18,387)	\$ (3,173)	\$ -	\$ 131,415
Lotto	71,409	(33,179)	(3,902)	(850)	-	33,478
Take 5	238,054	(120,398)	(14,283)	(2,081)	-	101,292
Pick 10	29,557	(15,122)	(1,773)	(258)	-	12,404
Numbers	887,310	(447,163)	(53,239)	(7,755)	-	379,153
Win 4	927,022	(422,740)	(55,621)	(8,102)	-	440,559
Powerball	408,065	(194,430)	(24,484)	(3,810)	-	185,341
Other Multi-State Draw Games***	94,011	(47,750)	(5,482)	(917)	-	39,862
Instant	4,178,499	(2,857,208)	(250,708)	(38,378)	(26,079)	1,006,126
Quick Draw	793,152	(519,568)	(47,589)	(7,957)	-	218,038
Total traditional lottery	7,938,829	(4,816,333)	(475,468)	(73,281)	(26,079)	2,547,668
Video gaming	2,034,690 *	430	(912,852)	(155,703)	-	966,565
	<u>\$ 9,973,519</u>	<u>\$ (4,815,903)</u>	<u>\$ (1,388,320)</u>	<u>\$ (228,984)</u>	<u>\$ (26,079)</u>	3,514,233
Telecommunications						(18,612)
Indirect expenses						<u>(127,314)</u>
Total operating income						<u>\$ 3,368,307</u>

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

Credits played	\$ 38,325,229
Credits won	<u>(36,290,539)</u>
Net machine income	<u>\$ 2,034,690</u>

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

*** Other Multi-State Draw Games include Cash 4 Life.



NEW YORK STATE LOTTERY
Notes to Financial Statements
Years Ended March 31, 2018 and 2017

NOTE 8 OPERATING INCOME (continued)

	2017					
	Expenses					Net
Revenue	Prizes**	Commissions	Fees	Instant Direct Expense		
Mega Millions	\$ 284,698	\$ (143,548)	\$ (16,765)	\$ (2,765)	\$ -	\$ 121,620
Lotto	79,165	(45,069)	(4,347)	(969)	-	28,780
Take 5	234,114	(115,587)	(14,047)	(2,114)	-	102,366
Pick 10	29,426	(14,616)	(1,766)	(266)	-	12,778
Numbers	897,644	(429,055)	(53,859)	(8,525)	-	406,205
Win 4	920,766	(422,431)	(55,246)	(8,734)	-	434,355
Powerball	348,685	(164,565)	(20,921)	(3,149)	-	160,050
Other Multi-State Draw Games***	89,316	(44,931)	(5,229)	(859)	-	38,297
Instant	4,001,246	(2,740,093)	(240,071)	(39,432)	(25,739)	955,911
Quick Draw	794,055	(519,117)	(47,643)	(8,067)	-	219,228
Total traditional lottery	7,679,115	(4,639,012)	(459,894)	(74,880)	(25,739)	2,479,590
Video gaming	1,996,607 *	(80)	(885,631)	(151,968)	-	958,928
	<u>\$ 9,675,722</u>	<u>\$ (4,639,092)</u>	<u>\$ (1,345,525)</u>	<u>\$ (226,848)</u>	<u>\$ (25,739)</u>	3,438,518
Telecommunications						(18,588)
Indirect expenses						<u>(133,377)</u>
Total operating income						<u>\$ 3,286,553</u>

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

Credits played	\$ 37,063,202
Credits won	(35,066,595)
Net machine income	<u>\$ 1,996,607</u>

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

*** Other Multi-State Draw Games include Cash 4 Life.

NOTE 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.

**NEW YORK STATE LOTTERY**

Notes to Financial Statements

Years Ended March 31, 2018 and 2017

NOTE 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, 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 years ended March 31, 2018 and 2017, 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, 2018 and 2017, the Lottery had between 230 and 219 retired and/or spouses of retired employees receiving these benefits, with an annual pay-as-you-go cost of approximately \$2,686,817 and \$2,358,927, respectively. Employee costs were approximately \$581,379 and \$507,648, as of March 31, 2018 and 2017. These retiree healthcare benefit costs are included in personnel service and fringe benefits expenses in the Statements of Revenue, Expenses, and Change in Net Position.



NEW YORK STATE LOTTERY
Notes to Financial Statements
Years Ended March 31, 2018 and 2017

NOTE 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 \$1,204,000 and \$1,344,000 as of March 31, 2018 and 2017, respectively, and is recorded as compensated absences in the statements of net position.

NOTE 12 LEASES

The Lottery has entered into operating leases for equipment and building space. Rental expense was approximately \$2,506,000 and \$2,567,000 in 2018 and 2017, respectively.

Future minimum lease payments under all noncancelable leases having initial or remaining terms in excess of one year as of March 31, 2018 are as follows (in thousands):

	<u>Operating Leases</u>
2019	\$ 2,573
2020	1,699
2021	1,141
2022	517
2023	522
2024 and thereafter	<u>834</u>
Total minimum payments required	<u><u>\$ 7,286</u></u>

NOTE 13 COMMITMENTS AND CONTINGENCIES

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 4,500 self-service terminals. International Game Technology (IGT; formerly GTECH Corporation) is responsible for operating all traditional Lottery games, including maintenance of terminals and related communication services, under a contract expiring on August 1, 2020.

**NEW YORK STATE LOTTERY**

Notes to Financial Statements

Years Ended March 31, 2018 and 2017

NOTE 13 COMMITMENTS AND CONTINGENCIES *(continued)*Contractual Arrangements *(continued)*

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, IGT Global Solutions Corporation (formerly GTECH Printing Corporation) is an alternate supplier of Instant Game tickets.

Video lottery games are offered on approximately 18,400 video gaming machines spread over 10 video lottery gaming facilities. Everi Games, Inc. (formerly MGAM Systems, Inc.) provides a central processing system for the operation of video lottery games under a contract expiring on December 31, 2019. Video lottery gaming machines are provided under contracts expiring December 31, 2019 with two different companies: Bally Gaming Inc. and International Game Technology (formerly GTECH and Spielo International USA, Inc.). These contracts are paid based on a contractual percentage of revenue, adjusted for units of service provided.

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.



REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)



NEW YORK STATE LOTTERY

Required Supplementary Information (Unaudited)
Years Ended March 31, 2018 and 2017

The schedules that follow are required supplementary information and are presented as of and for the Lottery's fiscal year ended March 31 using a measurement date of the preceding March 31:

Schedule of Lottery's Proportionate Share of Net Pension Liability for New York State and Local Employees' Retirement System

As of and for the Years Ended March 31
(Dollars in thousands)

Fiscal Year End	Lottery's Proportionate (Percentage) Share of Collective Net Pension Liability	Lottery's Proportionate (Amount) Share of Collective Net Pension Liability	Lottery's Covered Employee Payroll	Lottery's Proportionate Share of Collective Net Pension Liability as a Percentage of Covered Employee Payroll	Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.12%	\$4,839	\$17,546	27.58%	94.70%
2017	0.12%	\$8,324	\$17,583	47.34%	90.69%
2016	0.13%	\$1,883	\$17,460	10.78%	97.95%

The "Schedule of Lottery's Proportionate Share of Net Pension Liability" presented above is to illustrate the required 10-year trend of information. However, until we can compile a full 10-year trend of information, we are presenting the information for which information was available.

Schedule of Lottery's Contributions for New York State and Local Employees' Retirement System

As of and for the Years Ended March 31
(Dollars in thousands)

Fiscal Year End	Required Contributions	Lottery's Contributions Recognized by the Pension Plan	Contribution Excess/ (Deficiency)	Lottery's Covered Employee Payroll	Lottery's Contributions as a Percentage of Covered Employee Payroll
2018	\$3,414	\$3,414	-	\$17,546	19.46%
2017	\$2,896	\$2,896	-	\$17,583	16.47%
2016	\$2,921	\$2,921	-	\$17,460	16.73%

The "Schedule of Lottery's Contributions" presented above is to illustrate the required 10-year trend of information. However, until we can compile a full 10-year trend of information, we are presenting the information for which information was available.



Statistical Section Overview (unaudited)

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 Position Most Recent 10 Fiscal Years (in thousands)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Net Position										
Investment in capital assets	\$ (77)	\$ 95	\$ (90)	\$ 43	\$ 5	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted for future prizes	72,026	79,119	104,894	140,965	184,824	150,194	138,995	156,955	184,078	200,031
Unrestricted	205,623	89,633	105,786	230,290	267,919	159,694	253,988	244,553	182,287	150,558
Total	<u>\$277,572</u>	<u>\$ 168,847</u>	<u>\$ 210,590</u>	<u>\$ 371,298</u>	<u>\$ 452,748</u>	<u>\$ 309,888</u>	<u>\$ 392,983</u>	<u>\$ 401,508</u>	<u>\$ 366,365</u>	<u>\$ 350,589</u>

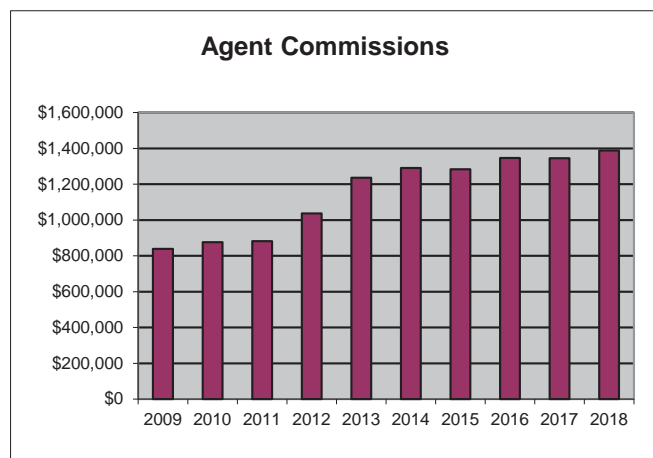
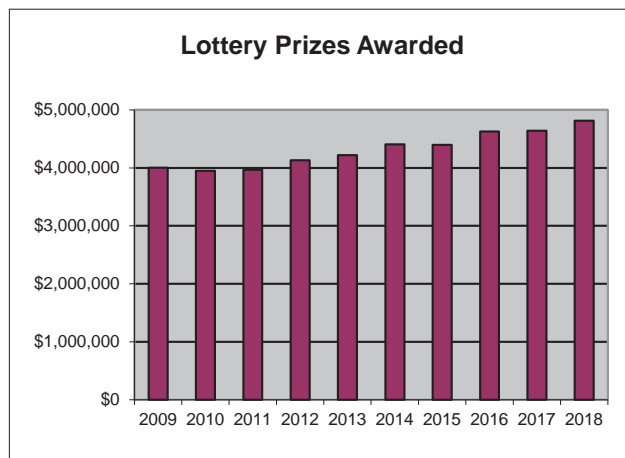
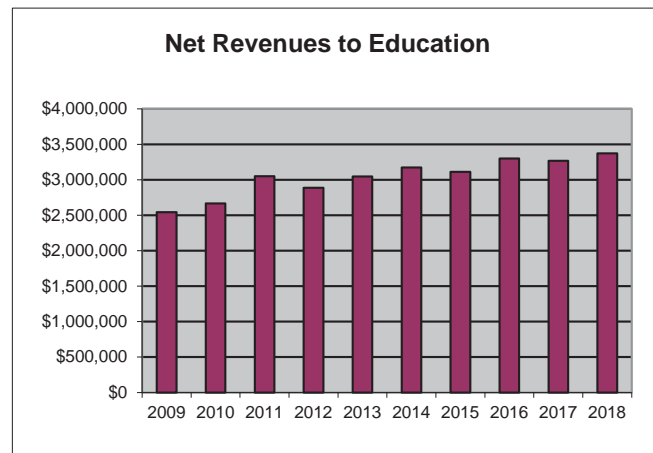
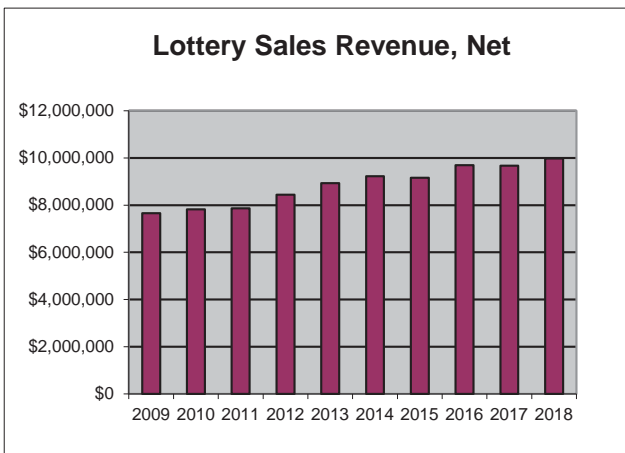
New York Lottery Changes in Net Position Most Recent 10 Fiscal Years (in thousands)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Operating revenue										
Lottery games revenue	<u>\$ 7,660,145</u>	<u>\$ 7,818,316</u>	<u>\$ 7,868,211</u>	<u>\$ 8,439,473</u>	<u>\$ 8,934,288</u>	<u>\$ 9,226,490</u>	<u>\$ 9,156,336</u>	<u>\$ 9,690,511</u>	<u>\$ 9,675,722</u>	<u>\$ 9,973,519</u>
Operating expenses										
Prize expense, net	(4,003,267)	(3,951,226)	(3,967,672)	(4,130,406)	(4,218,988)	(4,407,924)	(4,396,853)	(4,629,657)	(4,639,092)	(4,815,903)
Retailer commissions	(839,312)	(875,430)	(881,923)	(1,036,958)	(1,236,613)	(1,290,202)	(1,282,568)	(1,346,488)	(1,345,525)	(1,388,320)
Gaming contractor fees	(126,479)	(133,587)	(143,254)	(173,704)	(209,321)	(219,745)	(219,731)	(227,116)	(226,848)	(228,984)
Instant ticket direct expenses	(32,755)	(28,575)	(26,145)	(25,194)	(21,771)	(18,871)	(20,566)	(22,970)	(25,739)	(26,079)
Telecommunications	(28,109)	(24,485)	(19,206)	(20,330)	(20,954)	(21,357)	(17,827)	(18,492)	(18,588)	(18,612)
Marketing and advertising expense	(80,947)	(86,414)	(92,141)	(85,825)	(89,995)	(89,779)	(75,812)	(85,620)	(95,838)	(81,526)
Personal service and fringe benefits	(31,227)	(30,663)	(31,324)	(31,020)	(30,244)	(32,343)	(28,883)	(32,177)	(25,150)	(29,565)
Other administrative costs	(11,678)	(11,362)	(11,049)	(9,620)	(16,295)	(8,465)	(11,443)	(5,273)	(6,689)	(10,090)
State Agency charges	(1,710)	(1,540)	(1,739)	(1,618)	(1,458)	(2,784)	(4,441)	(5,725)	(5,700)	(6,133)
Depreciation	(4,599)	(2,851)	(2,247)	(1,677)	(38)	(5)	-	-	-	-
Total operating expenses	<u>(5,160,083)</u>	<u>(5,146,133)</u>	<u>(5,176,700)</u>	<u>(5,516,352)</u>	<u>(5,845,677)</u>	<u>(6,091,475)</u>	<u>(6,058,124)</u>	<u>(6,373,518)</u>	<u>(6,389,169)</u>	<u>(6,605,212)</u>
Operating income	<u>2,500,062</u>	<u>2,672,183</u>	<u>2,691,511</u>	<u>2,923,121</u>	<u>3,088,611</u>	<u>3,135,015</u>	<u>3,098,212</u>	<u>3,316,993</u>	<u>3,286,553</u>	<u>3,368,307</u>
Nonoperating revenue (expenses)										
Investment income	123,909	(40,024)	90,928	196,965	107,719	(35,364)	148,914	49,542	(4,973)	31,254
Other revenues (expense), net	(271)	(298)	381,995	(230)	(279)	1,340	8,982	2,102	7,773	11,398
Investment expense, net	(75,512)	(74,205)	(73,537)	(71,160)	(68,827)	(70,893)	(62,443)	(58,332)	(56,613)	(54,867)
Total nonoperating revenue (expenses)	<u>48,126</u>	<u>(114,527)</u>	<u>399,386</u>	<u>125,575</u>	<u>38,613</u>	<u>(104,917)</u>	<u>95,453</u>	<u>(6,688)</u>	<u>(53,813)</u>	<u>(12,215)</u>
Income before required allocation	2,548,188	2,557,656	3,090,897	3,048,696	3,127,224	3,030,098	3,193,665	3,310,305	3,232,740	3,356,092
Required allocation for aid to education	<u>(2,543,950)</u>	<u>(2,666,381)</u>	<u>(3,049,154)</u>	<u>(2,887,988)</u>	<u>(3,045,774)</u>	<u>(3,172,958)</u>	<u>(3,110,570)</u>	<u>(3,301,780)</u>	<u>(3,267,883)</u>	<u>(3,371,868)</u>
Change in net position	<u>\$ 4,238</u>	<u>\$ (108,725)</u>	<u>\$ 41,743</u>	<u>\$ 160,708</u>	<u>\$ 81,450</u>	<u>\$ (142,860)</u>	<u>\$ 83,095</u>	<u>\$ 8,525</u>	<u>\$ (35,143)</u>	<u>\$ (15,776)</u>



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

Fiscal Year	Sales Revenue	Fiscal Year	Contribution to Education	Fiscal Year	Prizes	Fiscal Year	Retailer Commissions
2009	\$7,660,145	2009	\$ 2,543,950	2009	\$ 4,003,267	2009	\$ 839,312
2010	\$7,818,316	2010	\$ 2,666,381	2010	\$ 3,951,226	2010	\$ 875,430
2011	\$7,868,211	2011	\$ 3,049,154	2011	\$ 3,967,672	2011	\$ 881,923
2012	\$8,439,473	2012	\$ 2,887,988	2012	\$ 4,130,406	2012	\$ 1,036,958
2013	\$8,934,288	2013	\$ 3,045,774	2013	\$ 4,218,988	2013	\$ 1,236,613
2014	\$9,226,490	2014	\$ 3,172,958	2014	\$ 4,407,924	2014	\$ 1,290,202
2015	\$9,156,336	2015	\$ 3,110,570	2015	\$ 4,396,853	2015	\$ 1,282,568
2016	\$9,690,511	2016	\$ 3,301,780	2016	\$ 4,629,657	2016	\$ 1,346,488
2017	\$9,675,722	2017	\$ 3,267,883	2017	\$ 4,639,092	2017	\$ 1,345,525
2018	\$9,973,519	2018	\$ 3,371,868	2018	\$ 4,815,903	2018	\$ 1,388,320





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

Games	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Draw Games:										
Lotto	\$ 178,075	\$ 178,239	\$ 132,657	\$ 122,272	\$ 110,026	\$ 94,563	\$ 83,960	\$ 96,686	\$ 79,165	\$ 71,409
Take 5	328,431	306,332	283,217	283,843	266,031	256,071	239,022	241,181	234,114	238,054
Pick 10	32,033	32,234	30,498	30,757	30,103	29,393	27,983	29,631	29,426	29,557
Numbers	850,331	845,401	854,430	880,536	847,203	873,845	870,505	902,496	897,644	887,310
Win 4	740,163	765,848	776,579	813,755	793,543	831,156	852,017	911,433	920,766	927,022
Quick Draw	424,422	411,898	424,192	502,039	579,929	654,158	693,758	787,230	794,055	793,152
Promotional Games*	8,388	-	-	-	-	1,832	-	-	-	-
Sweet Million	-	35,583	45,008	39,398	35,054	32,565	6,305	-	-	-
Powerball	-	36,320	202,628	296,576	468,404	462,974	304,540	460,045	348,685	408,065
Mega Millions	467,141	558,167	463,049	464,579	254,432	400,480	287,809	254,542	284,698	311,750
Other Multi- State Draw Games**	-	-	-	-	-	-	124,989	107,640	89,316	94,011
Total Draw Games	<u>3,028,984</u>	<u>3,170,022</u>	<u>3,212,258</u>	<u>3,433,755</u>	<u>3,384,725</u>	<u>3,637,037</u>	<u>3,490,888</u>	<u>3,790,884</u>	<u>3,677,869</u>	<u>3,760,330</u>
Video Gaming***	965,074	1,037,248	1,109,562	1,426,784	1,825,369	1,912,320	1,905,309	1,987,373	1,996,607	2,034,690
Instant	3,666,087	3,611,046	3,546,391	3,578,934	3,724,194	3,677,133	3,760,139	3,912,254	4,001,246	4,178,499
Total Sales	<u>\$ 7,660,145</u>	<u>\$ 7,818,316</u>	<u>\$ 7,868,211</u>	<u>\$ 8,439,473</u>	<u>\$ 8,934,288</u>	<u>\$ 9,226,490</u>	<u>\$ 9,156,336</u>	<u>\$ 9,690,511</u>	<u>\$ 9,675,722</u>	<u>\$ 9,973,519</u>

*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.

**Other Multi-State Draw Games include Cash 4 Life and Monopoly Millionaires' Club.

***Sales revenue for Video Gaming 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)**

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Operating Expenses										
Prizes	\$ 4,003,267	\$ 3,951,226	\$ 3,967,672	\$ 4,130,406	\$ 4,218,988	\$ 4,407,924	\$ 4,396,853	\$ 4,629,657	\$ 4,639,092	\$ 4,815,903
Retailer commissions/ Contractor fees	965,791	1,009,017	1,025,177	1,210,662	1,445,934	1,509,947	1,502,299	1,573,604	1,572,373	1,617,304
Instant Ticket Costs	32,755	28,575	26,145	25,194	21,771	18,871	20,566	22,970	25,739	26,079
Administration	158,270	157,315	157,706	150,090	158,984	154,733	138,406	147,287	151,965	145,926
Total Operating Expenses	<u>\$ 5,160,083</u>	<u>\$ 5,146,133</u>	<u>\$ 5,176,700</u>	<u>\$ 5,516,352</u>	<u>\$ 5,845,677</u>	<u>\$ 6,091,475</u>	<u>\$ 6,058,124</u>	<u>\$ 6,373,518</u>	<u>\$ 6,389,169</u>	<u>\$ 6,605,212</u>
Allocations to the State	<u>\$ 2,543,950</u>	<u>\$ 2,666,381</u>	<u>\$ 3,049,154</u>	<u>\$ 2,887,988</u>	<u>\$ 3,045,774</u>	<u>\$ 3,172,958</u>	<u>\$ 3,110,570</u>	<u>\$ 3,301,780</u>	<u>\$ 3,267,883</u>	<u>\$ 3,371,868</u>



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

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Outstanding debt										
Capital leases	6,895	3,872	1,810	-	-	-	-	-	-	-
Total outstanding debt	6,895	3,872	1,810	-	-	-	-	-	-	-
Resources available to pay outstanding debt										
Cash	\$ 43,947	\$ 153,220	\$ 230,468	\$ 386,230	\$ 444,837	\$ 515,992	\$ 490,819	\$ 724,407	\$ 643,606	\$ 719,472
Accounts receivable	480,213	417,233	598,435	469,732	441,486	479,000	526,292	455,443	476,862	490,121
Investments	1,561,529	1,483,903	1,478,595	1,584,726	1,694,184	1,539,410	1,609,281	1,520,856	1,439,184	1,334,200
Total resources available for debt	2,085,689	2,054,356	2,307,498	2,440,688	2,580,507	2,534,402	2,626,392	2,700,706	2,559,652	2,543,793
Ratio of debt to available resources	0.33%	0.19%	0.08%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

**New York State Demographic Information
Last 10 Calendar Years Available**

<u>Year</u>	<u>Population</u>	<u>Change From Prior Year</u>	<u>Personal Income</u>		<u>Change From Prior Year</u>	<u>Unemployment Rate</u>
			<u>Total (in millions)</u>	<u>Per Capita</u>		
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%
2011	19,465,000	0.45%	\$ 983,868	\$ 50,545	3.53%	7.8%
2012	19,570,000	0.54%	\$ 1,019,514	\$ 52,095	3.07%	8.4%
2013	19,651,000	0.41%	\$ 1,062,391	\$ 54,063	3.78%	7.5%
2014	19,746,000	0.48%	\$ 1,110,345	\$ 56,231	4.01%	6.4%
2015	19,799,000	0.27%	\$ 1,142,485	\$ 57,705	2.62%	5.3%
2016	19,745,000	-0.27%	\$ 1,195,263	\$ 60,534	4.90%	4.3%
2017	19,849,000	0.53%	\$ 1,210,641	\$ 60,993	0.76%	4.4%

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

Compiled by the Office of the State Comptroller of New York



Employment by Industry Most Recent 10 Years Available

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Private employment										
Forestry, fishing, etc.	23,744	14,341	14,274	13,574	13,504	13,535	14,557	15,360	15,593	14,493
Mining	10,675	14,286	16,157	13,474	16,354	13,545	17,814	17,919	15,945	15,744
Utilities	40,119	40,355	41,026	39,746	38,853	37,718	38,609	40,651	41,169	41,696
Construction	527,531	533,932	481,531	460,003	457,019	465,546	488,369	506,244	524,401	535,096
Manufacturing	584,955	565,032	501,685	488,760	486,728	490,214	490,939	491,514	491,287	486,649
Wholesale trade	397,410	390,550	368,081	362,207	368,266	376,376	375,110	376,718	399,993	407,601
Retail trade	1,073,776	1,066,636	1,017,181	1,037,002	1,049,816	1,080,494	1,090,752	1,110,766	1,119,649	1,118,854
Transportation, warehouse	334,622	346,712	324,256	319,556	322,951	339,507	355,301	373,954	409,290	416,937
Information	302,404	301,954	292,108	288,921	293,900	303,600	302,092	307,088	313,085	309,003
Finance, insurance	731,480	789,048	785,910	813,265	840,182	886,294	874,068	881,788	861,509	878,738
Real estate, rental, leasing	470,170	565,276	523,673	525,680	560,100	525,324	516,912	531,218	651,071	676,130
Professional, technical	869,279	900,523	857,138	836,836	865,670	898,786	914,860	938,438	974,093	1,001,231
Management	137,157	139,224	139,298	145,749	144,407	146,467	151,898	155,523	159,928	163,060
Administrative, waste services	559,928	567,179	526,294	547,991	565,216	583,641	592,517	601,893	618,661	616,766
Education	405,562	412,051	414,554	426,934	439,928	441,063	444,844	462,062	491,383	496,460
Health care, social assistance	1,483,772	1,500,582	1,507,891	1,532,549	1,552,866	1,586,051	1,598,293	1,620,745	1,644,352	1,700,547
Arts, entertainment, recreation	299,829	320,716	316,950	313,381	322,386	336,168	348,315	350,417	361,302	366,591
Accommodation, food service	616,162	628,012	628,254	652,705	685,582	723,476	744,100	771,504	803,905	819,773
Other services	609,995	612,489	596,445	592,029	601,412	677,681	682,594	700,294	707,765	725,618
Total	9,478,570	9,708,898	9,352,706	9,410,362	9,625,140	9,925,486	10,041,944	10,254,096	10,604,381	10,790,987
Government employment										
Federal, civilian	127,046	127,037	127,052	132,803	121,187	118,511	116,234	114,773	115,146	116,717
Military	57,087	59,940	60,058	60,269	61,472	60,310	59,347	58,273	56,762	55,158
State	247,038	250,133	246,748	242,306	236,299	233,078	243,922	244,683	245,100	234,311
Local	1,079,349	1,091,269	1,091,970	1,082,820	1,058,850	1,045,252	1,039,093	1,037,453	1,038,998	1,041,094
Total	1,510,520	1,528,379	1,525,828	1,518,198	1,477,808	1,457,151	1,458,596	1,455,182	1,456,006	1,447,280
Total nonfarm employment	10,989,090	11,237,277	10,878,534	10,928,560	11,102,948	11,382,637	11,500,540	11,709,278	12,060,387	12,238,267
Total farm employment	50,784	51,724	51,219	50,628	51,584	51,609	54,849	54,826	55,129	53,659
Total employment	11,039,874	11,289,001	10,929,753	10,979,188	11,154,532	11,434,246	11,555,389	11,764,104	12,115,516	12,291,926

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**
(in thousands)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Draw Games										
Sales	\$ 3,028,984	\$ 3,170,022	\$ 3,212,258	\$ 3,433,755	\$ 3,384,725	\$ 3,637,037	\$ 3,490,888	\$ 3,790,884	\$ 3,677,869	\$ 3,760,330
Prizes	\$ 1,544,341	\$ 1,582,169	\$ 1,602,202	\$ 1,725,238	\$ 1,685,102	\$ 1,898,153	\$ 1,824,620	\$ 1,991,870	\$ 1,898,919	\$ 1,959,125
Percent of sales	51%	50%	50%	50%	50%	52%	52%	53%	52%	52%
Retailer commissions	\$ 180,685	\$ 189,204	\$ 191,876	\$ 205,157	\$ 202,253	\$ 217,425	\$ 208,667	\$ 226,595	\$ 219,823	\$ 224,760
Percent of sales	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%
Contractor fees	\$ 38,691	\$ 39,224	\$ 30,260	\$ 33,392	\$ 34,178	\$ 36,152	\$ 34,341	\$ 35,217	\$ 35,448	\$ 34,903
Percent of sales	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Instant Games										
Sales	\$ 3,666,087	\$ 3,611,046	\$ 3,546,391	\$ 3,578,934	\$ 3,724,194	\$ 3,677,133	\$ 3,760,139	\$ 3,912,254	\$ 4,001,246	\$ 4,178,499
Prizes	\$ 2,459,439	\$ 2,369,845	\$ 2,365,847	\$ 2,405,555	\$ 2,534,890	\$ 2,511,112	\$ 2,572,353	\$ 2,636,201	\$ 2,740,093	\$ 2,857,208
Percent of sales	67%	66%	67%	67%	68%	68%	68%	67%	68%	68%
Retailer commissions	\$ 219,974	\$ 216,664	\$ 212,781	\$ 214,736	\$ 223,449	\$ 221,886	\$ 226,024	\$ 237,292	\$ 240,071	\$ 250,708
Percent of sales	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%
Contractor fees	\$ 27,386	\$ 27,505	\$ 32,466	\$ 35,231	\$ 40,734	\$ 41,064	\$ 41,341	\$ 40,480	\$ 39,432	\$ 38,378
Percent of sales	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Ticket and related costs	\$ 32,755	\$ 28,575	\$ 26,145	\$ 25,194	\$ 21,771	\$ 18,871	\$ 20,566	\$ 22,970	\$ 25,739	\$ 26,079
Percent of sales	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Video										
Sales (net machine income)	\$ 965,074	\$ 1,037,248	\$ 1,109,562	\$ 1,426,784	\$ 1,825,369	\$ 1,912,320	\$ 1,905,309	\$ 1,987,373	\$ 1,996,607	\$ 2,034,690
Facility commissions	\$ 438,653	\$ 469,562	\$ 477,266	\$ 617,065	\$ 810,911	\$ 850,891	\$ 847,877	\$ 882,601	\$ 885,631	\$ 912,852
Percent of sales	45%	45%	43%	43%	44%	44%	45%	44%	44%	45%
Contractor fees	\$ 60,402	\$ 66,858	\$ 80,528	\$ 105,081	\$ 134,409	\$ 142,529	\$ 144,049	\$ 151,419	\$ 151,968	\$ 155,703
Percent of sales	6%	6%	7%	7%	7%	7%	8%	8%	8%	8%
All Games										
Sales	\$ 7,660,145	\$ 7,818,316	\$ 7,868,211	\$ 8,439,473	\$ 8,934,288	\$ 9,226,490	\$ 9,156,336	\$ 9,690,511	\$ 9,675,722	\$ 9,973,519
Administrative costs	\$ 158,270	\$ 157,315	\$ 157,706	\$ 150,090	\$ 158,984	\$ 154,733	\$ 138,406	\$ 147,287	\$ 151,965	\$ 145,926
Percent of sales	2%	2%	2%	2%	2%	2%	2%	2%	2%	1%
Number of Employees	359	351	333	331	311	313	305	255	255	236
Number of Retailers	16,500	16,700	16,553	16,806	17,000	17,500	18,000	17,500	17,500	17,500



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

	<u>Leasehold improvements</u>			<u>Equipment</u>		
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Value</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Value</u>
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
2013	\$ 4,526,000	\$ 4,526,000	\$ -	\$ 2,022,000	\$ 2,017,000	\$ 5,000
2014	\$ 4,526,000	\$ 4,526,000	\$ -	\$ 1,911,000	\$ 1,911,000	\$ -
2015	\$ 4,526,000	\$ 4,526,000	\$ -	\$ 1,911,000	\$ 1,911,000	\$ -
2016	\$ 4,526,000	\$ 4,526,000	\$ -	\$ 1,911,000	\$ 1,911,000	\$ -
2017	\$ 4,526,000	\$ 4,526,000	\$ -	\$ 1,911,000	\$ 1,911,000	\$ -
2018	\$ 4,526,000	\$ 4,526,000	\$ -	\$ 1,911,000	\$ 1,911,000	\$ -

Note: In 2013, ownership of video gaming surveillance equipment passed from the Lottery to the gaming facilities. The cost of the equipment was \$23,996,000 and it was fully depreciated.