

NEW YORK STATE LOTTERY

Statements of Revenue and Revenue
Allocations for the Fiscal Years
Ended March 31, 1979 and 1978 and
Auditors' Opinion

AUDITORS' OPINION

New York State Lottery,
Swan Street Building,
Empire State Plaza
Albany, New York 12223

April 25, 1980

Dear Sirs:

We have examined the statements of revenue and revenue allocations of the New York State Lottery for the fiscal years ended March 31, 1979 and 1978. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the above-mentioned financial statements present fairly the results of the Lottery's operations for the years ended March 31, 1979 and 1978, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Yours truly,

Deloitte Haskins & Sells

NEW YORK STATE LOTTERY

STATEMENTS OF REVENUE AND REVENUE ALLOCATIONS
FOR THE FISCAL YEARS ENDED MARCH 31, 1979 AND 1978

	FISCAL YEAR ENDED MARCH 31, 1979	FISCAL YEAR ENDED MARCH 31, 1978
REVENUE:		
Lottery ticket sales (Notes 1 and 2):		
Instant Game Two.....	-	\$ 63,471,000
Instant Game Three.....	-	58,773,000
Instant Game Four.....	\$ 23,723,000	33,163,000
Instant Game Five.....	55,781,000	-
Instant Game Six.....	3,079,000	-
Instant Game Seven.....	51,979,000	-
Instant Game Eight.....	21,132,000	-
Lotto Game.....	6,375,000	-
Olympic Game.....	15,111,000	-
Weekly and Subscription Games.....	10,878,000	40,442,000
Interest Income (Note 1).....	2,565,000	1,318,000
Total.....	<u>190,623,000</u>	<u>197,167,000</u>
Less vendor and bank commissions (Note 5)...	<u>15,952,000</u>	<u>13,841,000</u>
NET REVENUE FROM LOTTERY OPERATIONS.....	<u>\$174,671,000</u>	<u>\$183,326,000</u>
REVENUE ALLOCATIONS (Note 1):		
Lottery prizes paid (Note 4).....	\$ 71,641,000	\$ 74,715,000
Provision for unclaimed and future prizes...	2,790,000	3,509,000
Revenue allocated to prizes.....	<u>74,431,000</u>	<u>78,224,000</u>
Revenue allocatable to administrative expenses (Note 1).....	14,248,000	16,633,000
Actual expenses over (under) the statutory provision for expenses.....	719,000	(128,000)
Actual expenses.....	<u>14,967,000</u>	<u>16,505,000</u>
Actual expenses in excess of revenue allocated to expenses (Note 5).....	<u>(719,000)</u>	
Revenue allocated to administrative expenses.....	<u>14,248,000</u>	<u>16,505,000</u>
Revenue allocated to education (Note 3).....	85,992,000	88,597,000
TOTAL REVENUE ALLOCATIONS.....	<u>\$174,671,000</u>	<u>\$183,326,000</u>

See notes to financial statements.

NEW YORK STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The present New York State Lottery ("the Lottery") was established by Chapter 92 of the Laws of 1976 enacted by the New York State Legislature on March 31, 1976. The accounting policies of the Lottery conform to the accounting requirements of the State of New York. Such policies conform to generally accepted accounting principles with minor variations, namely, the noncapitalization of equipment and inventory, principally supplies which have no material effect on the accompanying financial statements.

The following are the Lottery's significant accounting policies:

Revenue Recognition

Revenue is reported based on the dollar value of lottery ticket sales. Ticket sales are determined based on the total number of tickets available for sale for each game less unsold tickets returned by vendors at the conclusion of each game. Lottery tickets disbursed by vendors as free ticket prizes are not reflected as lottery ticket sales.

In periods prior to April 1, 1978 ticket sales were determined on the basis of ticket agent reports of sales filed on a weekly basis. The new method is more efficient and the result is not materially different from the amount determinable under the method previously used.

Revenue Allocation

The allocation of lottery revenues (exclusive of interest income) has been made in accordance with the provisions of the New York State Lottery for Education Law which requires that:

- . allocations of gross ticket revenue to New York State for educational purposes be at least 45%
- . allocations of gross ticket revenue for the payment of lottery prizes not exceed 40%; and
- . allocations of gross ticket revenue for the payment of lottery operating expenses (including vendor and bank commissions) not exceed 15%.

Lottery tickets which entitle the purchaser to a free ticket prize and which ultimately are unclaimed by the purchaser, produce revenue which does not have an associated prize liability. Such revenues, determined on a statistical basis, are reallocated to administration to offset the additional costs incurred by the Lottery in offering free ticket prizes.

Interest Income

The interest income earned on lottery receipts deposited by the Lottery in the education fund and operating expense fund accrues to the specific purpose of each fund.

The interest income earned on lottery receipts deposited in the lottery prize payment accounts or invested in short term securities is available for the payment of additional lottery prizes.

2. STATUS OF LOTTERY GAMES

The status of the various lottery games conducted during the fiscal years ended March 31, 1979 and 1978 is as follows:

<u>Game</u>	<u>Started</u>	<u>Ended</u>
Instant Game Two	1/4/77	9/6/77
Instant Game Three	5/20/77	1/30/78
Instant Game Four	1/31/78	5/8/78
Instant Game Five	5/9/78	9/11/78
Instant Game Six	8/22/78	12/18/78
Instant Game Seven	9/12/78	3/15/79
Instant Game Eight	1/2/79	(in progress)
Lotto Game	11/2/78	(in progress)
Olympic Game	7/14/78	(in progress)
Weekly and Subscription Games	5/20/77	9/12/78

3. TRANSFERS TO NEW YORK STATE FOR EDUCATION

During the fiscal years ended March 31, 1979 and 1978, approximately \$90,322,000 and \$95,344,000 of lottery revenues (including \$4,900,000 and \$1,700,000 of unclaimed prize money, respectively) were transferred to the State Treasury. Such transfers are made monthly based on estimated lottery sales. Total transfers of lottery revenue allocated to education made to the State Treasury since September 1976, the start of current lottery operations, were \$274,641,000 as of March 31, 1979.

4. LOTTERY PRIZES PAID

For the fiscal years ended March 31, 1979 and 1978, low-tier lottery prizes of \$2, \$5 (instant lotteries) and \$20 (weekly lottery) paid by lottery ticket vendors amounted to approximately \$46,283,000 and \$46,711,000 and high-and low-tier prizes paid directly by the Lottery amounted to \$25,358,000 and \$28,004,000, respectively. These amounts include prizes awarded during periodic special drawings to disburse previously unexpended

prize funds accumulated from lower than anticipated grand-prize annuity costs and other unallocated Jackpot Prize monies and interest income earned on lottery prize fund deposits.

5. OPERATING EXPENSES

The Lottery's total provision for operating expenses as a percentage of revenue from lottery ticket sales is made up of approximately the following components:

	<u>1979</u>	<u>1978</u>
Ticket vendor commissions.....	6.00%	6.00%
Distributor/Bank commissions....	2.00%	.75%
Administration expense.....	7.00%	8.25%
	<u>15.00%</u>	<u>15.00%</u>

During fiscal year 1979 the Lottery changed its system for distributing and processing the sale of lottery tickets. In prior periods lottery tickets were distributed through a group of banking institutions for a fixed fee equal to .75% of lottery ticket sales. During fiscal year 1979 the Lottery adopted a distributor based system for distributing and processing such sales. Each distributor receives a fixed fee equal to 2% of lottery ticket sales.

All Lottery expenses are paid by the New York State Treasury ("General Fund") from "First Instance Appropriations" made to the Lottery. Such expenditures are reimbursed to the State by the Lottery from revenue derived from the sale of lottery tickets. Administration expenses reflected in the accompanying statements represent the total of all paid expenses reported to the Lottery by the Department of Taxation and Finance through September 15, 1979 and 1978, the last dates for such payments to apply to the fiscal years ended March 31, 1979 and 1978, respectively. Included in administrative expenses for the fiscal year ended March 31, 1978 was a provision for uncollectible amounts due from lottery vendors and an accrual for additional administrative expenses.

For the fiscal year ended March 31, 1979, actual administrative expenses paid by the General Fund, from funds appropriated in the First Instance, exceeded lottery revenue allocated for the payment of such expenses by \$719,000. Reimbursement to the General Fund for such excess was settled as part of the annual close-out of the State's fiscal year, when all First Instance Appropriation excesses or deficiencies are offset. For the fiscal year ended March 31, 1978, lottery revenue (exclusive of interest income) allocated for the payment of lottery operating expenses in excess of actual expenses incurred was reallocated to education.

Administration expenses incurred by the Lottery included the cost of developing and printing lottery tickets, advertising, salary costs, additional vendor and bank or distributor commissions for the distribution of free ticket prizes, and other operating costs.