

NEW YORK STATE LOTTERY

Financial Statements for the
Years Ended March 31, 1984 and 1983
and Auditors' Opinion

AUDITORS' OPINION

The New York State Lottery:

We have examined the statements of assets and liabilities of New York State Lottery as of March 31, 1984 and 1983 and the related statements of revenue and revenue allocations for the years then ended. 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, such financial statements present fairly the assets and liabilities of the Lottery at March 31, 1984 and 1983 and the revenue and revenue allocations for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins + Sells

June 21, 1984

NEW YORK STATE LOTTERY

STATEMENTS OF ASSETS AND LIABILITIES
MARCH 31, 1984 AND 1983
(In Thousands)

	<u>NOTES</u>	<u>1984</u>	<u>1983</u>
ASSETS:			
Cash (including short-term cash investments)	2	\$ 62,600	\$38,407
Accounts receivable	8	38,449	27,399
Investments:	2		
U.S. Government-backed obligations (maturity value, \$199,178 less unamor- tized discount of \$115,872)		83,306	-
Long-term cash investments (maturity value, \$4,310 less unamortized discount of \$90)		<u>4,220</u>	<u>-</u>
TOTAL		<u><u>\$188,575</u></u>	<u><u>\$65,806</u></u>
LIABILITIES:			
Prizes:			
Allocation of accrued revenue		\$ 18,102	\$13,479
Unclaimed and future prizes	10	40,313	24,592
Long-term prize obligations of \$197,525 less unamortized discount of \$114,299	3,10	<u>83,226</u>	<u>-</u>
		<u>141,641</u>	<u>38,071</u>
Education:			
Allocation of accrued revenue		17,411	11,678
Allocation of cash revenue payable	10	<u>21,608</u>	<u>11,777</u>
		<u>39,019</u>	<u>23,455</u>
Administration:			
Allocation of accrued revenue		2,879	1,514
Allocation of cash revenue payable (overpaid)	10	<u>(480)</u>	<u>675</u>
		<u>2,399</u>	<u>2,189</u>
Deferred revenue for unclaimed free tickets on open games and other payables		<u>5,516</u>	<u>2,091</u>
TOTAL		<u><u>\$188,575</u></u>	<u><u>\$65,806</u></u>

See notes to financial statements.

NEW YORK STATE LOTTERY

STATEMENTS OF REVENUE AND REVENUE ALLOCATIONS
FOR THE YEARS ENDED MARCH 31, 1984 AND 1983
(In Thousands)

	<u>NOTES</u>	<u>1984</u>	<u>1983</u>
REVENUE:			
Ticket sales	1,4,8	\$890,276	\$644,967
Less:			
Vendor and distributor commissions	7,8	(55,691)	(40,930)
Contractor fees	7,8	(37,010)	(25,519)
Net revenue from ticket sales		<u>797,575</u>	<u>578,518</u>
Interest income	2	9,646	6,430
Other		<u>112</u>	<u>-</u>
NET REVENUE		<u>\$807,333</u>	<u>\$584,948</u>
REVENUE ALLOCATIONS:			
Prizes	1 3,5	\$392,002	\$284,552
Education	6	390,542	275,244
Administration	7	<u>24,789</u>	<u>25,152</u>
TOTAL REVENUE ALLOCATIONS		<u>\$807,333</u>	<u>\$584,948</u>

See notes to financial statements.

NEW YORK STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED MARCH 31, 1984 AND 1983

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 has no material effect on the accompanying financial statements.

The Lottery operates as an "Enterprise Fund" as defined in the Accounting, Financial Reporting and Budget Accountability Reform Act of 1981. An Enterprise Fund is used to account for governmental activities intended by law to be self-supporting or to be financed in whole or in part by user charges. All appropriated Lottery expenses are funded by the Lottery from revenue derived from the sale of lottery tickets.

Revenue Recognition

Revenue from completed Instant games 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 at the conclusion of each game. Lottery tickets claimed and disbursed by vendors as free ticket prizes are not reflected as lottery ticket sales.

Revenue from Instant games in progress is reported based on the dollar value of the total number of tickets available for sale for each game less ticket inventories on hand at the Lottery and distributors and tickets issued on consignment (unpaid for) to vendors. The dollar value of tickets issued on consignment to vendors, which were not inventoried to determine accrued sales, at March 31, 1984 and 1983 was approximately \$12,801,000 and \$10,847,000, respectively. Such consignments are made to provide an inventory of tickets available for sale.

Revenue from Lotto/Keno, Daily Numbers and Win-Four games is reported at the dollar value of all tickets sold. Revenue from Lotto subscriptions includes approximately \$5,400,000 of ticket sales for future drawings.

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 Law for education which requires the following:

- allocations of gross ticket revenue to New York State for education purposes be at least 35 percent for the Daily Numbers and Win-Four games and 45 percent for all other games;

- . allocations of gross ticket revenue for the payment of lottery prizes not exceed 50 percent for the Daily Numbers and Win-Four games and 40 percent for all other games; and
- . allocations of gross ticket revenue from all games for the payment of lottery operating expenses (including vendor and distributor commissions) not exceed 15 percent.

2. INVESTMENTS

Cash Investments

Lottery sales receipts are allocated and deposited in investment fund accounts for prizes, education and administration. The New York State Department of Audit and Control invests these monies in various long-term and short-term securities. Interest income earned in each investment fund is used for the specific purpose and benefit of that fund.

U.S. Government-Backed Obligations

The Lottery has invested in U.S. Government-backed obligations (Treasury Investment Growth Receipts) which will provide for the payment of the long-term prize obligations (see Note 3). During fiscal year 1984, approximately \$5,228,000 of amortized discount was included in interest income.

3. LIABILITY FOR LONG-TERM PRIZE WINNERS

The liability for long-term prize winners is for those prizes which are eligible for payment by annual installments. Such prize payments are funded by the Lottery's investment in U.S. Government-backed securities (see Note 2). Any excess of security maturities over prize payments is allocated to the prize fund. The long-term obligation discount is based on interest rates which range from 7.90 percent to 12.65 percent and reflect the interest rates earned by the investments held to fund the related liabilities. During fiscal year 1984, approximately \$5,148,000 of amortized discount was included in revenue allocated to prizes.

The aggregate amount of long-term liabilities due in each of the five years following March 31, 1984, and the total thereafter, is as follows (in thousands):

1984	\$ 9,301
1985	9,934
1986	9,934
1987	9,934
1988	9,934
1989 and thereafter	<u>148,488</u>
	<u>\$197,525</u>

4. REVENUE OF LOTTERY GAMES

Revenue of the various lottery games conducted during the years ended March 31, 1984 and 1983 is as follows:

Game	Started	EndedRevenue.....	
			1984	1983
			(In Thousands)	
Instant Game 11-16	9/17/79	12/15/80		\$ (3)
Instant Game 15A	8/ 6/81	12/31/81		170
Instant Game 15B	6/ 3/83	9/15/83	\$ 1,223	-
Instant Game 17	12/15/80	6/15/81	-	(1)
Instant Game 18	4/20/81	10/30/81	-	44
Instant Game 19	9/ 8/81	1/29/82	-	4
Instant Game 20	11/18/81	1/29/82	-	(3)
Instant Game 21	1/12/82	4/30/82	130	4,826
Instant Game 22	4/21/82	6/30/82	(44)	15,445
Instant Game 23	6/15/82	9/30/82	156	21,187
Instant Game 24	9/ 7/82	12/30/82	145	32,927
Instant Game 25	1/11/83	4/12/83	8,430	12,528
Instant Game 26	4/18/83	8/12/83	16,951	-
Instant Game 27	6/27/83	9/13/83	14,449	-
Instant Game 28	9/13/83	11/29/83	14,795	-
Instant Game 29	11/8/83	2/15/84	12,755	-
Instant Game 30	1/9/84	(in progress)	13,889	-
Instant Game 55	2/19/84	(in progress)	2,366	-
Total Instant Game Sales			85,245	87,124
Lotto/Keno games	11/ 2/78	(in progress)	460,041	279,259
Daily Numbers and Win-Four games	9/ 2/80	(in progress)	344,990	278,584
Total lottery ticket sales			<u>\$890,276</u>	<u>\$644,967</u>

Negative revenue represents the adjustment for vendor and distributor returns to the Lottery of tickets previously recognized as sales.

5. PRIZES

Revenue allocated to prizes during the fiscal years ended March 31, 1984 and 1983 is as follows:

	1984	1983
	(In Thousands)	
Lottery prizes paid	\$288,432	\$273,436
Less prize payments for games closed in prior years	(38,071)	(26,955)
Prize payments for current year's games	<u>250,361</u>	<u>246,481</u>
Provision for prizes	141,641	38,071
Total revenue allocated to prizes	<u>\$392,002</u>	<u>\$284,552</u>

Prize payments for the current year's games include prizes awarded during periodic special drawings to disburse previously unexpended prize funds accumulated from lower than anticipated grand prize costs (see Note 3), other unallocated jackpot prize monies and interest income earned on the Lottery's prize fund deposits and investments in U.S. Government-backed obligations.

6. EDUCATION

Revenue allocated to education during the fiscal years ended March 31, 1984 and 1983 is as follows:

	<u>1984</u>	<u>1983</u>
	(In Thousands)	
Revenue expended for education	\$374,978	\$268,978
Prior year accrual	(23,455)	(17,189)
Amount transferred for revenues reported during the year	351,523	251,789
Provision for education	<u>39,019</u>	<u>23,455</u>
Total revenue allocated to education	<u>\$390,542</u>	<u>\$275,244</u>

The revenue transferred for education represents the appropriations passed by the Legislature for both years.

7. ADMINISTRATION AND OPERATING EXPENSES

Administration expenses represent the total of all paid expenses reported to the Lottery by the New York State Department of Audit and Control through March 31, 1984 and 1983 and an accrual for expenses to be paid after the fiscal year-end. Administration expenses incurred by the lottery include the cost of developing and printing lottery tickets, advertising, salary costs, additional vendor and distributor commissions for the distribution of free ticket prizes and other operating costs.

The Lottery's total administration and operating expenses as a percentage of revenue from lottery ticket sales includes the following components:

Ticket vendor commissions	6%
Distributor commissions	2
Administration expenses (including contractor fees)	<u>7</u>
Total percentage allocated to administration and operating expenses	<u>15%</u>

Net revenue allocated for administration expenses during the years ended March 31, 1984 and 1983 is as follows:

	<u>1984</u>	<u>1983</u>
	(In Thousands)	
Current year administration payments	\$24,579	\$20,152
Prior year accrual	(2,189)	(2,059)
Administration surplus	17,078	5,924
Administration surplus transferred to education	<u>(17,078)</u>	<u>(5,924)</u>
Amount transferred for current year's administration expenses	22,390	18,093
Provision for administration	<u>2,399</u>	<u>2,189</u>
Total	24,789	20,282
Reimbursement of prior First Instance deficits of \$6,339 less capital expenditures	<u>-</u>	<u>4,870</u>
Net revenue allocated to administration expenses	<u>\$24,789</u>	<u>\$25,152</u>

Administration surplus is the statutory provision for expenses less actual administration expenses for the year. Had the reimbursement of prior First Instance deficits not been made, administration surplus for 1983 would have been \$10,794,000.

8. ACCOUNTS RECEIVABLE

Accounts receivable for the years ended March 31, 1984 and 1983 are as follows:

	<u>1984</u>	<u>1983</u>
	(In Thousands)	
Accrued ticket sales:		
Instant games	\$ 4,451	\$ 2,502
Lotto/Keno games	22,919	10,689
Daily Numbers games	<u>13,898</u>	<u>16,405</u>
	41,268	29,596
Less - contractor fees and commissions payable	<u>(3,388)</u>	<u>(2,925)</u>
Net accrued ticket sales	37,880	26,671
Other	<u>569</u>	<u>728</u>
Total accounts receivable	<u>\$38,449</u>	<u>\$27,399</u>

9. LITIGATION

The Lottery is involved in various legal proceedings stemming from its Lotto games under which claims for prizes and damages in various amounts are being sought. In the opinion of Lottery officials, the outcome of pending claims, actions and proceedings will not have a material adverse effect upon the financial position of the Lottery.

10. COMPOSITION OF REVENUE AND REVENUE ALLOCATIONS

The following table presents the composition of revenue and revenue allocations from September 8, 1976, the start of current lottery operations, to March 31, 1984:

	9/8/76 to 3/31/83	4/1/83 to 3/31/84	9/8/76 to 3/31/84
	(In Thousands)		
<u>Revenue:</u>			
Instant games sales	\$ 889,434	\$ 85,245	\$ 974,679
Lotto/Keno games sales	562,028	460,041	1,022,069
Daily Numbers/Win-Four games sales	526,443	344,990	871,433
Other games sales	93,168	-	93,168
Lottery ticket sales	<u>2,071,073</u>	<u>890,276</u>	<u>2,961,349</u>
Interest income	24,455	9,646	34,101
Old lottery interest (1976-77)	2,560	-	2,560
Other	<u>-</u>	<u>112</u>	<u>112</u>
Total revenue	<u>\$2,098,088</u>	<u>\$900,034</u>	<u>\$2,998,122</u>
<u>Revenue Allocated to Prizes:</u>			
Instant games (40%)	\$ 355,773	\$ 34,098	\$ 389,871
Lotto/Keno games (40%)	224,812	184,016	408,828
Daily Numbers/Win-Four games (50%)	263,221	172,495	435,716
Other games (40%)	37,267	-	37,267
Allocation of lottery ticket sales	881,073	390,609	1,271,682
Interest income	7,340	8,763	16,103
Unclaimed prizes	(9,048)	(7,370)	(16,418)
Unclaimed free tickets	(1,828)	-	(1,828)
Total revenue allocated to prizes	<u>877,537</u>	<u>392,002</u>	<u>1,269,539</u>
Lottery prizes paid	(839,466)	(288,432)	(1,127,898)
Balance	38,071	103,570	141,641
Current year accrual (included above)	(13,479)	(18,102)	(31,581)
Prior year accrual	<u>-</u>	<u>13,479</u>	<u>13,479</u>
Prizes to be paid	<u>\$ 24,592</u>	<u>\$ 98,947</u>	<u>\$ 123,539</u>
<u>Allocation of prizes to be paid:</u>			
Unclaimed and future prizes	\$ 24,592	\$ 15,721	\$ 40,313
Long-term prize obligations	<u>-</u>	<u>83,226</u>	<u>83,226</u>
	<u>\$ 24,592</u>	<u>\$ 98,947</u>	<u>\$ 123,539</u>

	9/8/76 to <u>3/31/83</u>	4/1/83 to <u>3/31/84</u>	9/8/76 to <u>3/31/84</u>
<u>Revenue Allocated to Education:</u>			
Instant games (45%)	\$ 400,245	\$ 38,360	\$ 438,605
Lotto/Keno games (45%)	252,913	207,019	459,932
Daily Numbers/Win-Four games (35%)	184,254	120,746	305,000
Other games (45%)	41,926	-	41,926
Allocation of lottery ticket sales	<u>879,338</u>	<u>366,125</u>	<u>1,245,463</u>
Interest income	14,531	(63)	14,468
Old lottery interest (1976-77)	2,560	-	2,560
Unclaimed prizes	9,048	7,370	16,418
Administration surplus	15,021	17,078	32,099
Other	-	32	32
Total revenue allocated to education	920,498	390,542	1,311,040
Revenue transferred for education	<u>(897,043)</u>	<u>(374,978)</u>	<u>(1,272,021)</u>
Balance	23,455	15,564	39,019
Current year accrual (included above)	(11,678)	(17,411)	(17,411)
Prior year accrual	-	11,678	-
Allocation of cash revenue payable	<u>\$ 11,777</u>	<u>\$ 9,831</u>	<u>\$ 21,608</u>
<u>Revenue Allocated to Administration:</u>			
Instant games (15%)	\$ 133,415	\$ 12,787	\$ 146,202
Lotto/Keno games (15%)	84,304	69,006	153,310
Daily Numbers/Win-Four games (15%)	78,967	51,749	130,716
Other games (15%)	13,975	-	13,975
Allocation of lottery ticket sales	<u>310,661</u>	<u>133,542</u>	<u>444,203</u>
Interest income	2,584	946	3,530
Unclaimed free tickets	1,828	-	1,828
Other	-	80	80
Administration surplus	<u>(15,021)</u>	<u>(17,078)</u>	<u>(32,099)</u>
Total revenue allocated to administration	300,052	117,490	417,542
Vendor and distributor commissions and contractor fees	<u>(196,843)</u>	<u>(92,701)</u>	<u>(289,544)</u>
Net revenue allocated to administration	103,209	24,789	127,998
Amount transferred for administrative expenses	<u>(101,020)</u>	<u>(24,579)</u>	<u>(125,599)</u>
Balance	2,189	210	2,399
Current year accrual (included above)	(1,514)	(2,879)	(2,879)
Prior year accrual	-	1,514	-
Allocation of cash revenue payable (overpaid)	<u>\$ 675</u>	<u>\$ (1,155)</u>	<u>\$ (480)</u>