

NEW YORK STATE LOTTERY

Financial Statements for the  
Years Ended March 31, 1985 and 1984  
and Auditors' Opinion

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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, 1985 and 1984 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, 1985 and 1984 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 20, 1985

NEW YORK STATE LOTTERY

STATEMENTS OF ASSETS AND LIABILITIES  
MARCH 31, 1985 AND 1984  
(In Thousands)

	<u>NOTES</u>	<u>1985</u>	<u>1984</u>
ASSETS:			
Cash (including short-term cash investments)	2	\$ 90,574	\$ 62,600
Accounts receivable	8	27,282	38,449
Investments:	2		
U.S. Government-backed obligations (maturity value, \$533,053 in 1985 and \$199,178 in 1984 less unamortized dis- count of \$318,197 in 1985 and \$115,872 in 1984)		214,856	83,306
Long-term cash investments (maturity value, \$8,090 in 1985 and \$4,310 in 1984 less unamortized discount of \$111 in 1985 and \$90 in 1984)		<u>7,979</u>	<u>4,220</u>
TOTAL		<u>\$340,691</u>	<u>\$188,575</u>
LIABILITIES:			
Prizes:			
Allocation of accrued revenue		\$ 11,192	\$ 18,102
Unclaimed and future prizes	10	69,887	40,313
Long-term prize obligations of \$537,243 in 1985 and \$197,525 in 1984 less unamortized discount of \$315,464 in 1985 and \$114,299 in 1984	3,10	<u>221,779</u> <u>302,858</u>	<u>83,226</u> <u>141,641</u>
Education:			
Allocation of accrued revenue		10,547	17,411
Allocation of cash revenue payable	10	<u>13,441</u> <u>23,988</u>	<u>21,608</u> <u>39,019</u>
Administration:			
Allocation of accrued revenue		1,756	2,879
Allocation of cash revenue payable (overpaid)	10	<u>2,747</u> <u>4,503</u>	<u>(480)</u> <u>2,399</u>
Deferred revenue for unclaimed free tickets on open games and other payables		<u>9,342</u>	<u>5,516</u>
TOTAL		<u>\$340,691</u>	<u>\$188,575</u>

See notes to financial statements.

NEW YORK STATE LOTTERY

STATEMENTS OF REVENUE AND REVENUE ALLOCATIONS  
FOR THE YEARS ENDED MARCH 31, 1985 AND 1984  
(In Thousands)

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	<u>NOTES</u>	<u>1985</u>	<u>1984</u>
REVENUE:			
Ticket sales	1,4,8	\$1,271,167	\$890,276
Less:			
Vendor and distributor commissions	7,8	(78,850)	(55,691)
Contractor fees	7,8	(23,865)	(37,010)
Net revenue from ticket sales		<u>1,168,452</u>	<u>797,575</u>
Interest income	2	26,347	9,646
Other		<u>1,605</u>	<u>112</u>
NET REVENUE		<u>\$1,196,404</u>	<u>\$807,333</u>
REVENUE ALLOCATIONS:			
Prizes	1 3,5	\$ 560,567	\$392,002
Education	6	599,945	390,542
Administration	7	<u>35,892</u>	<u>24,789</u>
TOTAL REVENUE ALLOCATIONS		<u>\$1,196,404</u>	<u>\$807,333</u>

See notes to financial statements.

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NEW YORK STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED MARCH 31, 1985 AND 1984

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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 and merchandise prizes) which has no material effect on the accompanying financial statements.

The Lottery operates as an "Special Revenue Fund" as defined in the Accounting, Financial Reporting and Budget Accountability Reform Act of 1981. A Special Revenue Fund is used to raise revenue for specific governmental activities. 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, 1985 and 1984 was approximately \$12,649,000 and \$12,801,000, respectively. Such consignments are made to provide an inventory of tickets available for sale.

Revenue from Lotto, Daily Numbers and Win-Four games is reported at the dollar value of all tickets sold. Revenue from Lotto subscriptions for fiscal years 1985 and 1984 includes approximately \$6,102,000 and \$5,400,000, respectively, of ticket sales for future drawings. In addition, Lotto subscription revenues of \$4,500,000 for 1985, applicable to cancelled games terminated in June, was refunded and, therefore, not reflected in the financial statements.

## 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 years 1985 and 1984, approximately \$14,889,000 and \$5,228,000, respectively, 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 13.55 percent and reflect the interest rates earned by the investments held to fund the related liabilities. During fiscal years 1985 and 1984, approximately \$14,748,000 and \$5,148,000, respectively, of amortized discount was included in revenue allocated to prizes.

The aggregate amount of long-term liabilities due in each of the five fiscal years following March 31, 1985, and the total thereafter, is as follows (in thousands):

1986	\$ 27,390
1987	27,390
1988	27,390
1989	27,390
1990	27,390
1991 and thereafter	<u>400,293</u>
	<u>\$537,243</u>

#### 4. REVENUE OF LOTTERY GAMES

Revenue of the various lottery games conducted during the years ended March 31, 1985 and 1984 is as follows:

<u>Game</u>	<u>Started</u>	<u>Ended</u>	.....Revenue.....	
			<u>1985</u>	<u>1984</u>
			(In Thousands)	
Instant Game 15B	6/03/83	9/15/83	\$ (1)	\$ 1,223
Instant Game 21	1/12/82	4/30/82		130
Instant Game 22	4/21/82	6/30/82		(44)
Instant Game 23	6/15/82	9/30/82		156
Instant Game 24	9/07/82	12/30/82		145
Instant Game 25	1/11/83	4/12/83	116	8,430
Instant Game 26	4/18/83	8/12/83	(70)	16,951
Instant Game 27	6/27/83	9/13/83	151	14,449
Instant Game 28	9/13/83	11/29/83	172	14,795
Instant Game 29	11/08/83	2/15/84	(1)	12,755
Instant Game 30	1/09/84	5/04/84	11,619	13,889
Instant Game 55	2/19/84	5/04/84	(618)	2,366
Instant Game 31	4/10/84	6/11/84	19,709	
Instant Game 32	6/12/84	9/10/84	20,854	
Instant Game 33	9/11/84	1/14/85	22,065	
Instant Game 34	11/13/84	(in progress)	14,704	
Instant Game 35	1/15/85	(in progress)	<u>9,722</u>	
Total Instant Game Sales			98,422	85,245
Lotto	11/02/78	(in progress)	768,762	460,041
Daily Numbers and Win-Four games	9/02/80	(in progress)	<u>403,983</u>	<u>344,990</u>
Total lottery ticket sales			<u>\$1,271,167</u>	<u>\$890,276</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, 1985 and 1984 is as follows:

	<u>1985</u>	<u>1984</u>
	(In Thousands)	(In Thousands)
Lottery prizes paid	\$399,350	\$288,432
Less prize payments for games closed in prior years	<u>(141,641)</u>	<u>(38,071)</u>
Prize payments for current year's games	257,709	250,361
Provision for prizes - current year	<u>302,858</u>	<u>141,641</u>
Total revenue allocated to prizes	<u>\$560,567</u>	<u>\$392,002</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, 1985 and 1984 is as follows:

	<u>1985</u>	<u>1984</u>
	(In Thousands)	(In Thousands)
Revenue expended for education	\$614,977	\$374,978
Prior year accrual	<u>(39,019)</u>	<u>(23,455)</u>
Amount transferred for revenues reported during the year	575,958	351,523
Provision for education	<u>23,987</u>	<u>39,019</u>
Total revenue allocated to education	<u>\$599,945</u>	<u>\$390,542</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, 1985 and 1984 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, 1985 and 1984 is as follows:

	<u>1985</u>	<u>1984</u>
	(In Thousands)	
Current year administration payments	\$33,788	\$24,579
Prior year accrual	(2,399)	(2,189)
Administration surplus	56,863	17,078
Administration surplus transferred to education	<u>(56,863)</u>	<u>(17,078)</u>
Amount transferred for current year's administration expenses	31,389	22,390
Provision for administration	<u>4,503</u>	<u>2,399</u>
Net revenue allocated to administration	<u>\$35,892</u>	<u>\$24,789</u>

Administration surplus is the statutory provision for expenses less actual administration expenses for the year.

#### 8. ACCOUNTS RECEIVABLE

Accounts receivable for the years ended March 31, 1985 and 1984 are as follows:

	<u>1985</u>	<u>1984</u>
	(In Thousands)	
Accrued ticket sales:		
Instant games	\$ 1,782	\$ 4,451
Lotto games	13,617	22,919
Daily Numbers games	9,624	13,898
	<u>25,023</u>	<u>41,268</u>
Less - contractor fees and commissions payable	<u>(2,081)</u>	<u>(3,388)</u>
Net accrued ticket sales	22,942	37,880
Other	<u>4,340</u>	<u>569</u>
Total accounts receivable	<u>\$27,282</u>	<u>\$38,449</u>

#### 9. LITIGATION

The Lottery is involved in various legal proceedings 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, 1985:

	9/8/76 to <u>3/31/84</u>	4/1/84 to <u>3/31/85</u>	9/8/76 to <u>3/31/85</u>
	(In Thousands)		
<u>Revenue:</u>			
Instant games sales	\$ 974,679	\$ 98,422	\$1,073,101
Lotto games sales	1,022,069	768,762	1,790,831
Daily Numbers/Win-Four games sales	871,433	403,983	1,275,416
Other games sales	93,168	-	93,168
Lottery ticket sales	<u>2,961,349</u>	<u>1,271,167</u>	<u>4,232,516</u>
Interest income	34,101	26,347	60,448
Old lottery interest (1976-77)	2,560	-	2,560
Other	<u>112</u>	<u>1,605</u>	<u>1,717</u>
Total revenue	<u>\$2,998,122</u>	<u>\$1,299,119</u>	<u>\$4,297,241</u>
<u>Revenue Allocated to Prizes:</u>			
Instant games (40%)	\$ 389,871	\$ 39,369	\$ 429,240
Lotto games (40%)	408,828	307,505	716,333
Daily Numbers/Win-Four games (50%)	435,716	201,991	637,707
Other games (40%)	<u>37,267</u>	<u>-</u>	<u>37,267</u>
Allocation of lottery ticket sales	1,271,682	548,865	1,820,547
Interest income	16,103	22,910	39,013
Unclaimed prizes	(16,418)	(11,208)	(27,626)
Unclaimed free tickets	<u>(1,828)</u>	<u>-</u>	<u>(1,828)</u>
Total revenue allocated to prizes	1,269,539	560,567	1,830,106
Lottery prizes paid	<u>(1,127,898)</u>	<u>(399,350)</u>	<u>(1,527,248)</u>
Balance	141,641	161,217	302,858
Current year accrual (included above)	(18,102)	(11,192)	(11,192)
Prior year accrual	<u>-</u>	<u>18,102</u>	<u>-</u>
Prizes to be paid	<u>\$ 123,539</u>	<u>\$ 168,127</u>	<u>\$ 291,666</u>
<u>Allocation of prizes to be paid:</u>			
Unclaimed and future prizes	\$ 40,313	\$ 29,574	\$ 69,887
Long-term prize obligations	<u>83,226</u>	<u>138,553</u>	<u>221,779</u>
	<u>\$ 123,539</u>	<u>\$ 168,127</u>	<u>\$ 291,666</u>

	9/8/76 to <u>3/31/84</u>	4/1/84 to <u>3/31/85</u>	9/8/76 to <u>3/31/85</u>
<u>Revenue Allocated to Education:</u>			
Instant games (45%)	\$ 438,605	\$ 44,290	\$ 482,895
Lotto games (45%)	459,932	345,943	805,875
Daily Numbers/Win-Four games (35%)	305,000	141,394	446,394
Other games (45%)	41,926	-	41,926
Allocation of Lottery ticket sales	<u>1,245,463</u>	<u>531,627</u>	<u>1,777,090</u>
Interest income	14,468	247	14,715
Old Lottery interest (1976-77)	2,560	-	2,560
Unclaimed prizes	16,418	11,208	27,626
Administration surplus	32,099	56,863	88,962
Other	32	-	32
Total revenue allocated to Education	1,311,040	599,945	1,910,985
Revenue transferred for Education	<u>(1,272,021)</u>	<u>(614,977)</u>	<u>(1,886,998)</u>
Balance	39,019	(15,032)	23,987
Current year accrual (included above)	(17,411)	(10,547)	(10,547)
Prior year accrual	<u>-</u>	<u>17,411</u>	<u>-</u>
Allocation of cash revenue payable (overpaid)	<u>\$ 21,608</u>	<u>\$ (8,168)</u>	<u>\$ 13,440</u>
<u>Revenue Allocated to Administration:</u>			
Instant games (15%)	\$ 146,202	\$ 14,763	\$ 160,965
Lotto games (15%)	153,310	115,315	268,625
Daily Numbers/Win-Four games (15%)	130,716	60,597	191,313
Other games (15%)	13,975	-	13,975
Allocation of Lottery ticket sales	<u>444,203</u>	<u>190,675</u>	<u>634,878</u>
Interest income	3,530	3,190	6,720
Unclaimed free tickets	1,828	-	1,828
Other	80	1,605	1,685
Administration surplus	<u>(32,099)</u>	<u>(56,863)</u>	<u>(88,962)</u>
Total revenue allocated to administration	417,542	138,607	556,149
Vendor and distributor commissions and contractor fees	<u>(289,544)</u>	<u>(102,715)</u>	<u>(392,259)</u>
Net revenue allocated to administration	127,998	35,892	163,890
Amount transferred for administrative expenses	<u>(125,599)</u>	<u>(33,788)</u>	<u>(159,387)</u>
Balance	2,399	2,104	4,503
Current year accrual (included above)	(2,879)	(1,756)	(1,756)
Prior year accrual	<u>-</u>	<u>2,879</u>	<u>-</u>
Allocation of cash revenue payable (overpaid)	<u>\$ (480)</u>	<u>\$ 3,227</u>	<u>\$ 2,747</u>