

NEW YORK STATE LOTTERY

Financial Statements for the  
Years Ended March 31, 1986 and 1985  
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, 1986 and 1985 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, 1986 and 1985 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*

August 11, 1986

NEW YORK STATE LOTTERY

(2)

STATEMENTS OF ASSETS AND LIABILITIES  
 MARCH 31, 1986 AND 1985  
 (In Thousands)

|  | <u>NOTES</u> | <u>1986</u>      | <u>1985</u>      |
|--|--------------|------------------|------------------|
| <b>ASSETS:</b>   |              |                  |                  |
| Cash (including short-term cash investments)   | 2            | \$ 75,383        | \$ 90,574        |
| Accounts receivable  | 8            | 24,085           | 27,282           |
| Investments:   | 2            |                  |                  |
| U.S. Government-backed obligations<br>(maturity value, \$857,183 in 1986 and<br>\$533,053 in 1985 less unamortized dis-<br>count of \$494,963 in 1986 and \$318,197<br>in 1985)      |              | 362,220          | 214,856          |
| Long-term cash investments (maturity value,<br>\$10,015 in 1986 and \$8,090 in 1985 plus<br>unamortized premium of \$6 in 1986 and<br>less unamortized discount of \$111 in<br>1985) |              | <u>10,021</u>    | <u>7,979</u>     |
| <b>TOTAL</b>   |              | <u>\$471,709</u> | <u>\$340,691</u> |
| <b>LIABILITIES:</b>  |              |                  |                  |
| Prizes:  |              |                  |                  |
| Allocation of accrued revenue  |              | \$ 3,820         | \$ 11,192        |
| Unclaimed and future prizes  | 10           | 72,794           | 69,887           |
| Long-term prize obligations of \$862,409<br>in 1986 and \$537,243 in 1985 less<br>unamortized discount of \$491,608 in 1986<br>and \$315,464 in 1985                                 | 3,10         | <u>370,801</u>   | <u>221,779</u>   |
| Education:   |              | <u>447,415</u>   | <u>302,858</u>   |
| Allocation of accrued revenue  |              | 12,324           | 10,547           |
| Allocation of cash revenue payable   | 10           | <u>3,224</u>     | <u>13,441</u>    |
| Administration:  |              | <u>15,548</u>    | <u>23,988</u>    |
| Allocation of accrued revenue  |              | 1,787            | 1,756            |
| Allocation of cash revenue payable   | 10           | <u>3,684</u>     | <u>2,747</u>     |
| Deferred revenue for unclaimed free<br>tickets on open games and other<br>payables   |              | <u>5,471</u>     | <u>4,503</u>     |
|  |              | <u>3,275</u>     | <u>9,342</u>     |
| <b>TOTAL</b>   |              | <u>\$471,709</u> | <u>\$340,691</u> |

See notes to financial statements.

NEW YORK STATE LOTTERY

STATEMENTS OF REVENUE AND REVENUE ALLOCATIONS  
FOR THE YEARS ENDED MARCH 31, 1986 AND 1985  
(In Thousands)

|                                    | <u>NOTES</u> | <u>1986</u>            | <u>1985</u>            |
|------------------------------------|--------------|------------------------|------------------------|
| REVENUE:                           |              |                        |                        |
| Ticket sales                       | 1, 4         | \$1,317,011            | \$1,271,167            |
| Less:                              |              |                        |                        |
| Vendor and distributor commissions | 7            | (80,416)               | (78,850)               |
| Contractor fees                    | 7            | (31,907)               | (23,865)               |
| Net revenue from ticket sales      |              | <u>1,204,688</u>       | <u>1,168,452</u>       |
| Interest income                    | 2            | 40,639                 | 26,347                 |
| Other                              |              | <u>12</u>              | <u>1,605</u>           |
| <br>NET REVENUE                    |              | <br><u>\$1,245,339</u> | <br><u>\$1,196,404</u> |
| <br>REVENUE ALLOCATIONS:           |              |                        |                        |
| Prizes                             | 1            |                        |                        |
| Education                          | 3, 5         | \$ 598,562             | \$ 560,567             |
| Administration                     | 6            | 607,854                | 599,945                |
|                                    | 7            | <u>38,923</u>          | <u>35,892</u>          |
| <br>TOTAL REVENUE ALLOCATIONS      |              | <br><u>\$1,245,339</u> | <br><u>\$1,196,404</u> |

See notes to financial statements.

# NEW YORK STATE LOTTERY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED MARCH 31, 1986 AND 1985

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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 "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.

During fiscal year 1986, the Lottery changed its method of distributing Instant game tickets. The distribution function was transferred from the Lottery to an Instant game ticket contractor. At March 31, 1986, 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 Instant game ticket contractor.

At March 31, 1985, 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. Such consignments are made to provide an inventory of tickets available for sale. The dollar value of tickets issued on consignment to vendors, which were not inventoried to determine accrued sales, at March 31, 1985 was approximately \$12,649,000.

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 1986 and 1985, includes approximately \$4,714,000 and \$6,102,000, respectively, 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 which will provide for the payment of the long-term prize obligations (see Note 3). During fiscal years 1986 and 1985, approximately \$31,265,000 and \$14,889,000, 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 7.11 percent to 13.55 percent and reflect the interest rates earned by the investments held to fund the related liabilities. During fiscal years 1986 and 1985, approximately \$31,086,000 and \$14,748,000, 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, 1986, and the total thereafter, is as follows (in thousands):

|                     |                  |
|---------------------|------------------|
| 1987                | \$ 45,179        |
| 1988                | 45,179           |
| 1989                | 45,179           |
| 1990                | 45,179           |
| 1991                | 45,179           |
| 1992 and thereafter | <u>636,514</u>   |
|                     | <u>\$862,409</u> |

#### 4. REVENUE OF LOTTERY GAMES

Revenue of the various lottery games conducted during the years ended March 31, 1986 and 1985 is as follows:

| <u>Game</u>                      | <u>Started</u> | <u>Ended</u>  | .....Revenue.....  |                    |
|----------------------------------|----------------|---------------|--------------------|--------------------|
|                                  |                |               | <u>1986</u>        | <u>1985</u>        |
|                                  |                |               | (In Thousands)     |                    |
| Instant Game 15B                 | 6/03/83        | 9/15/83       |                    | \$ (1)             |
| Instant Game 25                  | 1/11/83        | 4/12/83       | \$ (2)             | 116                |
| Instant Game 26                  | 4/18/83        | 8/12/83       | -                  | (70)               |
| Instant Game 27                  | 6/27/83        | 9/13/83       | -                  | 151                |
| Instant Game 28                  | 9/13/83        | 11/29/83      | -                  | 172                |
| Instant Game 29                  | 11/08/83       | 2/15/84       | -                  | (1)                |
| Instant Game 30                  | 1/09/84        | 5/04/84       | 236                | 11,619             |
| Instant Game 55                  | 2/19/84        | 5/04/84       | -                  | (618)              |
| Instant Game 31                  | 4/10/84        | 6/11/84       | (2)                | 19,709             |
| Instant Game 32                  | 6/12/84        | 9/10/84       | 161                | 20,854             |
| Instant Game 33                  | 9/11/84        | 1/14/85       | 242                | 22,065             |
| Instant Game 34                  | 11/13/84       | 5/19/85       | (161)              | 14,704             |
| Instant Game 35                  | 1/15/85        | 4/08/85       | 11,712             | 9,722              |
| Instant Game 36                  | 4/09/85        | 6/10/85       | 15,237             | -                  |
| Instant Game 37                  | 6/11/85        | 9/09/85       | 16,651             | -                  |
| Instant Game 38                  | 9/10/85        | 11/11/85      | 10,135             | -                  |
| Instant Game 39                  | 11/12/85       | 1/26/86       | 9,457              | -                  |
| Instant Game 40                  | 1/27/86        | (in progress) | 13,038             | -                  |
| Total Instant Game Sales         |                |               | <u>76,704</u>      | <u>98,422</u>      |
| Lotto                            | 11/02/78       | (in progress) | 738,843            | 768,762            |
| Daily Numbers and Win-Four games | 9/02/80        | (in progress) | <u>501,464</u>     | <u>403,983</u>     |
| Total lottery ticket sales       |                |               | <u>\$1,317,011</u> | <u>\$1,271,167</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, 1986 and 1985 is as follows:

|  | <u>1986</u>      | <u>1985</u>      |
|--|------------------|------------------|
|  | (In Thousands)   |                  |
| Lottery prizes paid                        | \$454,005        | \$399,350        |
| Less prior year liability for closed games | (302,858)        | (141,641)        |
| Plus current year prize liability          | <u>447,415</u>   | <u>302,858</u>   |
| Total revenue allocated to prizes          | <u>\$598,562</u> | <u>\$560,567</u> |

Lottery prizes paid 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, 1986 and 1985 is as follows:

|  | <u>1986</u>      | <u>1985</u>      |
|--|------------------|------------------|
|  | (In Thousands)   |                  |
| Revenue expended for education                           | \$616,293        | \$614,977        |
| Prior year accrual                                       | <u>(23,987)</u>  | <u>(39,019)</u>  |
| Amount transferred for revenues reported during the year | 592,306          | 575,958          |
| Provision for education                                  | <u>15,548</u>    | <u>23,987</u>    |
| Total revenue allocated to education                     | <u>\$607,854</u> | <u>\$599,945</u> |

The revenue transferred represents the appropriations passed by the Legislature.

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, 1986 and 1985 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%         |
| Administration expenses (including distributor commissions and contractor fees) | <u>9</u>   |
| Total percentage allocated to administration and operating expenses             | <u>15%</u> |

Net revenue allocated for administration expenses during the years ended March 31, 1986 and 1985 is as follows:

|   | <u>1986</u>     | <u>1985</u>     |
|---|-----------------|-----------------|
|   | (In Thousands)  |                 |
| Current year administration payments                          | \$37,955        | \$33,788        |
| Prior year accrual  | (4,503)         | (2,399)         |
| Administration surplus  | 47,999          | 56,863          |
| Administration surplus transferred to education               | (47,999)        | (56,863)        |
| Amount transferred for current year's administration expenses | 33,452          | 31,389          |
| Provision for administration                                  | <u>5,471</u>    | <u>4,503</u>    |
| Net revenue allocated to administration                       | <u>\$38,923</u> | <u>\$35,892</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, 1986 and 1985 are as follows:

|   | <u>1986</u>     | <u>1985</u>     |
|---|-----------------|-----------------|
|   | (In Thousands)  |                 |
| Accrued ticket sales:                   |                 |                 |
| Instant games                           | \$ 2,181        | \$ 1,782        |
| Lotto games                             | 14,828          | 13,617          |
| Daily Numbers games                     | <u>13,233</u>   | <u>9,624</u>    |
|   | 30,242          | 25,023          |
| Less:                                   |                 |                 |
| Contractor fees and commissions payable | (2,762)         | (2,081)         |
| Prizes paid by agents                   | <u>(9,634)</u>  | <u>(6,426)</u>  |
| Net accrued ticket sales                | 17,846          | 16,516          |
| Other                                   | <u>6,239</u>    | <u>10,766</u>   |
| Total accounts receivable               | <u>\$24,085</u> | <u>\$27,282</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, 1986:

|   | 9/8/76<br>to<br><u>3/31/85</u> | 4/1/85<br>to<br><u>3/31/86</u> | 9/8/76<br>to<br><u>3/31/86</u> |
|---|--------------------------------|--------------------------------|--------------------------------|
|   | (In Thousands)                 |                                |                                |
| <u>Revenue:</u>                         |                                |                                |                                |
| Instant games sales                     | \$1,073,101                    | \$ 76,704                      | \$1,149,805                    |
| Lotto games sales                       | 1,790,831                      | 738,843                        | 2,529,674                      |
| Daily Numbers/Win-Four games sales      | 1,275,416                      | 501,464                        | 1,776,880                      |
| Other games sales                       | 93,168                         | -                              | 93,168                         |
| Lottery ticket sales                    | <u>4,232,516</u>               | <u>1,317,011</u>               | <u>5,549,527</u>               |
| Interest income                         | 60,448                         | 40,639                         | 101,087                        |
| Old lottery interest (1976-77)          | 2,560                          | -                              | 2,560                          |
| Other                                   | <u>1,717</u>                   | <u>12</u>                      | <u>1,729</u>                   |
| Total revenue                           | <u>\$4,297,241</u>             | <u>\$1,357,662</u>             | <u>\$5,654,903</u>             |
| <u>Revenue Allocated to Prizes:</u>     |                                |                                |                                |
| Instant games (40%)                     | \$ 429,240                     | \$ 30,682                      | \$ 459,922                     |
| Lotto games (40%)                       | 716,333                        | 295,537                        | 1,011,870                      |
| Daily Numbers/Win-Four games (50%)      | 637,707                        | 250,732                        | 888,439                        |
| Other games (40%)                       | 37,267                         | -                              | 37,267                         |
| Allocation of Lottery ticket sales      | <u>1,820,547</u>               | <u>576,951</u>                 | <u>2,397,498</u>               |
| Interest income                         | 39,013                         | 38,812                         | 77,825                         |
| Unclaimed prizes                        | (27,626)                       | (17,201)                       | (44,827)                       |
| Unclaimed free tickets                  | (1,828)                        | -                              | (1,828)                        |
| Total revenue allocated to prizes       | <u>1,830,106</u>               | <u>598,562</u>                 | <u>2,428,668</u>               |
| Lottery prizes paid                     | (1,527,248)                    | (454,005)                      | (1,981,253)                    |
| Balance                                 | 302,858                        | 144,557                        | 447,415                        |
| Current year accrual (included above)   | (11,192)                       | (3,820)                        | (3,820)                        |
| Prior year accrual                      | <u>-</u>                       | <u>11,192</u>                  | <u>-</u>                       |
| Prizes to be paid                       | <u>\$ 291,666</u>              | <u>\$ 151,929</u>              | <u>\$ 443,595</u>              |
| <u>Allocation of prizes to be paid:</u> |                                |                                |                                |
| Unclaimed and future prizes             | \$ 69,887                      | \$ 2,907                       | \$ 72,794                      |
| Long-term prize obligations             | <u>221,779</u>                 | <u>149,022</u>                 | <u>370,801</u>                 |
|   | <u>\$ 291,666</u>              | <u>\$ 151,929</u>              | <u>\$ 443,595</u>              |

|  | 9/8/76<br>to<br><u>3/31/85</u> | 4/1/85<br>to<br><u>3/31/86</u> | 9/8/76<br>to<br><u>3/31/86</u> |
|--|--------------------------------|--------------------------------|--------------------------------|
| <u>Revenue Allocated to Education:</u>                 |                                |                                |                                |
| Instant games (45%)                                    | \$ 482,895                     | \$ 34,517                      | \$ 517,412                     |
| Lotto games (45%)                                      | 805,875                        | 332,479                        | 1,138,354                      |
| Daily Numbers/Win-Four games (35%)                     | 446,394                        | 175,512                        | 621,906                        |
| Other games (45%)                                      | 41,926                         | -                              | 41,926                         |
| Allocation of Lottery ticket sales                     | <u>1,777,090</u>               | <u>542,508</u>                 | <u>2,319,598</u>               |
| Interest income  | 14,715                         | 146                            | 14,861                         |
| Old Lottery interest (1976-77)                         | 2,560                          | -                              | 2,560                          |
| Unclaimed prizes                                       | 27,626                         | 17,201                         | 44,827                         |
| Administration surplus                                 | 88,962                         | 47,999                         | 136,961                        |
| Other  | 32                             | -                              | 32                             |
| Total revenue allocated to Education                   | 1,910,985                      | 607,854                        | 2,518,839                      |
| Revenue transferred for Education Balance              | <u>(1,886,998)</u>             | <u>(616,293)</u>               | <u>(2,503,291)</u>             |
| Current year accrual (included above)                  | 23,987                         | (8,439)                        | 15,548                         |
| Prior year accrual                                     | (10,547)                       | (12,324)                       | (12,324)                       |
|  | <u>-</u>                       | <u>10,547</u>                  | <u>-</u>                       |
| Allocation of cash revenue payable (overpaid)          | <u>\$ 13,440</u>               | <u>\$(10,216)</u>              | <u>\$ 3,224</u>                |
| <u>Revenue Allocated to Administration:</u>            |                                |                                |                                |
| Instant games (15%)                                    | \$ 160,965                     | \$ 11,506                      | \$ 172,471                     |
| Lotto games (15%)                                      | 268,625                        | 110,826                        | 379,451                        |
| Daily Numbers/Win-Four games (15%)                     | 191,313                        | 75,220                         | 266,533                        |
| Other games (15%)                                      | 13,975                         | -                              | 13,975                         |
| Allocation of Lottery ticket sales                     | <u>634,878</u>                 | <u>197,552</u>                 | <u>832,430</u>                 |
| Interest income  | 6,720                          | 1,681                          | 8,401                          |
| Unclaimed free tickets                                 | 1,828                          | -                              | 1,828                          |
| Other  | 1,685                          | 12                             | 1,697                          |
| Administration surplus                                 | <u>(88,962)</u>                | <u>(47,999)</u>                | <u>(136,961)</u>               |
| Total revenue allocated to administration              | 556,149                        | 151,246                        | 707,395                        |
| Vendor and distributor commissions and contractor fees | <u>(392,259)</u>               | <u>(112,323)</u>               | <u>(504,582)</u>               |
| Net revenue allocated to administration                | 163,890                        | 38,923                         | 202,813                        |
| Amount transferred for administrative expenses         | <u>(159,387)</u>               | <u>(37,955)</u>                | <u>(197,342)</u>               |
| Balance  | 4,503                          | 968                            | 5,471                          |
| Current year accrual (included above)                  | (1,756)                        | (1,787)                        | (1,787)                        |
| Prior year accrual                                     | <u>-</u>                       | <u>1,756</u>                   | <u>-</u>                       |
| Allocation of cash revenue payable                     | <u>\$ 2,747</u>                | <u>\$ 937</u>                  | <u>\$ 3,684</u>                |