

NEW YORK STATE LOTTERY

Financial Statements for the
Years Ended March 31, 1987 and 1986
and Auditors' Opinion

AUDITORS' OPINION

New York State Lottery:

We have examined the statements of assets and liabilities of New York State Lottery as of March 31, 1987 and 1986 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, 1987 and 1986 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
July 21, 1987

NEW YORK STATE LOTTERY

STATEMENTS OF ASSETS AND LIABILITIES
MARCH 31, 1987 AND 1986
(In Thousands)

	<u>NOTES</u>	<u>1987</u>	<u>1986</u>
ASSETS:			
Cash (including short-term cash investments)	2	\$ 87,064	\$ 75,383
Accounts receivable	8	30,065	24,085
Investments:			
U.S. Government-backed obligations (maturity value, \$1,078,630 in 1987 and \$857,183 in 1986 less unamortized dis- count of \$586,820 in 1987 and \$494,963 in 1986)	2	491,810	362,220
Long-term cash investments (maturity value, \$13,311 in 1987 and \$10,015 in 1986 less unamortized discount of \$9 in 1987 and plus unamortized premium of \$6 in 1986)		<u>13,302</u>	<u>10,021</u>
TOTAL		<u>\$622,241</u>	<u>\$471,709</u>
LIABILITIES:			
Prizes:			
Allocation of accrued revenue		\$ 5,599	\$ 3,820
Unclaimed and future prizes	10	78,919	72,794
Long-term prize obligations of \$1,084,146 in 1987 and \$862,409 in 1986 less unamortized discount of \$583,157 in 1987 and \$491,608 in 1986	3,10	<u>500,989</u> <u>585,507</u>	<u>370,801</u> <u>447,415</u>
Education:			
Allocation of accrued revenue		15,034	12,324
Allocation of cash revenue payable	10	<u>13,076</u> <u>28,110</u>	<u>3,224</u> <u>15,548</u>
Administration:			
Allocation of accrued revenue		2,321	1,787
Allocation of cash revenue payable	10	<u>4,016</u> <u>6,337</u>	<u>3,684</u> <u>5,471</u>
Deferred revenue for unclaimed free tickets on open games and other payables		<u>2,287</u>	<u>3,275</u>
TOTAL		<u>\$622,241</u>	<u>\$471,709</u>

See notes to financial statements.

NEW YORK STATE LOTTERY

STATEMENTS OF REVENUE AND REVENUE ALLOCATIONS
FOR THE YEARS ENDED MARCH 31, 1987 AND 1986
(In Thousands)

	<u>NOTES</u>	<u>1987</u>	<u>1986</u>
REVENUE:			
Ticket sales	1,4	\$1,458,822	\$1,317,011
Less:			
Vendor and distributor commissions	7	(87,037)	(80,416)
Contractor fees	7	(41,297)	(31,907)
Net revenue from ticket sales		<u>1,330,488</u>	<u>1,204,688</u>
Interest income	2	51,556	40,639
Other		<u>1,086</u>	<u>12</u>
NET REVENUE		<u>\$1,383,130</u>	<u>\$1,245,339</u>
REVENUE ALLOCATIONS:			
Prizes	1 3,5	\$ 674,617	\$ 598,562
Education	6	666,790	607,854
Administration	7	<u>41,723</u>	<u>38,923</u>
TOTAL REVENUE ALLOCATIONS		<u>\$1,383,130</u>	<u>\$1,245,339</u>

See notes to financial statements.

NEW YORK STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED MARCH 31, 1987 AND 1986

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 a "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.

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, 1987 and 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.

Revenue from Lotto, Daily Numbers, Win-Ten and Win-Four games is reported at the dollar value of all tickets sold. Revenue from Lotto subscriptions for fiscal years 1987 and 1986 includes approximately \$6,166,000 and \$4,714,000, 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.

Investments

In 1987 the Lottery changed its method of recording investment purchases from the settlement date (when the securities are received) to the trade date (when the securities are purchased). The effect of the change is not material; however, it was implemented to reflect the liability at date of purchase.

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. The Lottery's deposits at year-end were entirely covered by Federal depository insurance or by collateral held by the Lottery's custodial bank in the Lottery's name. 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 1987 and 1986, approximately \$43,321,000 and \$31,265,000, respectively, of amortized discount was included in interest income. The current market value at March 31, 1987 for Lottery investments is shown below.

	<u>Carrying Value</u>	<u>Market Value</u>
(In thousands).....	
U.S. government - backed obligations (zero-coupon bonds and STRIPS)	\$491,810	\$571,717

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 5.52 percent to 13.55 percent and reflect the interest

rates earned by the investments held to fund the related liabilities. During fiscal years 1987 and 1986, approximately \$43,117,000 and \$31,086,000, 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, 1987, and the total thereafter, is as follows (in thousands):

1988	\$ 58,542
1989	58,542
1990	58,542
1991	58,542
1992	58,542
1993 and thereafter	<u>791,436</u>
	<u>\$1,084,146</u>

4. REVENUE OF LOTTERY GAMES

Revenue of the various lottery games conducted during the years ended March 31, 1987 and 1986 is as follows:

<u>Game</u>	<u>Started</u>	<u>Ended</u>Revenue.....	
			<u>1987</u>	<u>1986</u>
			(In Thousands)	
Prior to Game 25			\$ 4	\$ -
Instant Game 25	1/11/83	4/12/83	-	(2)
Instant Game 30	1/09/84	5/04/84	-	236
Instant Game 31	4/10/84	6/11/84	-	(2)
Instant Game 32	6/12/84	9/10/84	-	161
Instant Game 33	9/11/84	1/14/85	-	242
Instant Game 34	11/13/84	5/19/85	(72)	(161)
Instant Game 35	1/15/85	4/08/85	224	11,712
Instant Game 36	4/09/85	6/10/85	115	15,237
Instant Game 37	6/11/85	9/09/85	101	16,651
Instant Game 38	9/10/85	11/11/85	(35)	10,135
Instant Game 39	11/12/85	1/26/86	1	9,457
Instant Game 40	1/27/86	5/06/86	5,267	13,038
Instant Game 41	5/07/86	8/11/86	17,713	-
Instant Game 42	8/12/86	11/03/86	15,320	-
Instant Game 43	11/04/86	1/12/87	12,149	-
Instant Game 44	1/13/87	(in progress)	<u>14,567</u>	<u>-</u>
Total Instant Game Sales			65,354	76,704
Lotto	11/02/78	(in progress)	762,981	738,843
Daily Numbers and Win-Four games	9/02/80	(in progress)	601,110	501,464
Win 10	1/19/87	(in progress)	<u>29,377</u>	<u>-</u>
Total lottery ticket sales			<u>\$1,458,822</u>	<u>\$1,317,011</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, 1987 and 1986 is as follows:

	<u>1987</u>	<u>1986</u>
	(In Thousands)	(In Thousands)
Lottery prizes paid	\$536,525	\$454,005
Less prior year liability for closed games	(447,415)	(302,858)
Plus current year prize liability	<u>585,507</u>	<u>447,415</u>
Total revenue allocated to prizes	<u>\$674,617</u>	<u>\$598,562</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, 1987 and 1986 is as follows:

	<u>1987</u>	<u>1986</u>
	(In Thousands)	(In Thousands)
Revenue transferred for education	\$654,228	\$616,293
Prior year accrual	(15,548)	(23,987)
Amount transferred for revenues reported during the year	638,680	592,306
Provision for education	<u>28,110</u>	<u>15,548</u>
Total revenue allocated to education	<u>\$666,790</u>	<u>\$607,854</u>

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, 1987 and 1986 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, 1987 and 1986 is as follows:

	<u>1987</u>	<u>1986</u>
	(In Thousands)	
Current year administration payments	\$40,857	\$37,955
Prior year accrual	(5,471)	(4,503)
Administration surplus	51,286	47,999
Administration surplus transferred to education	<u>(51,286)</u>	<u>(47,999)</u>
Amount transferred for current year's administration expenses	35,386	33,452
Provision for administration	<u>6,337</u>	<u>5,471</u>
Net revenue allocated to administration	<u>\$41,723</u>	<u>\$38,923</u>

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

8. ACCOUNTS RECEIVABLE

Accounts receivable at March 31, 1987 and 1986 are as follows:

	<u>1987</u>	<u>1986</u>
	(In Thousands)	
Accrued ticket sales:		
Instant games	\$ 1,061	\$ 2,181
Lotto games	17,009	14,828
Daily Numbers games	16,489	13,233
Win 10	2,462	-
	<u>37,021</u>	<u>30,242</u>
Less:		
Contractor fees and commissions payable	(3,242)	(2,762)
Prizes paid by agents	<u>(10,891)</u>	<u>(9,634)</u>
Net accrued ticket sales	22,888	17,846
Contractor receivable	5,201	4,331
Accrued interest	1,104	1,138
Other	<u>872</u>	<u>770</u>
Total accounts receivable	<u>\$30,065</u>	<u>\$24,085</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, 1987:

	9/8/76 to <u>3/31/86</u>	4/1/86 to <u>3/31/87</u>	9/8/76 to <u>3/31/87</u>
(In Thousands)			
<u>Revenue:</u>			
Instant games sales	\$1,149,805	\$ 65,354	\$1,215,159
Lotto games sales	2,529,674	762,981	3,292,655
Daily Numbers/Win-Four game sales	1,776,880	601,110	2,377,990
Win 10 game sales	-	29,377	29,377
Other games sales	93,168	-	93,168
Lottery ticket sales	<u>5,549,527</u>	<u>1,458,822</u>	<u>7,008,349</u>
Interest income	101,087	51,556	152,643
Old Lottery interest (1976-77)	2,560	-	2,560
Other	<u>1,729</u>	<u>1,086</u>	<u>2,815</u>
Total revenue	<u>\$5,654,903</u>	<u>\$1,511,464</u>	<u>\$7,166,367</u>
<u>Revenue Allocated to Prizes:</u>			
Instant games (40%)	\$ 459,922	\$ 26,142	\$ 486,064
Lotto games (40%)	1,011,870	305,192	1,317,062
Daily Numbers/Win-Four games (50%)	888,439	300,555	1,188,994
Win 10 game (40%)	-	11,751	11,751
Other games (40%)	<u>37,267</u>	<u>-</u>	<u>37,267</u>
Allocation of Lottery ticket sales	2,397,498	643,640	3,041,138
Interest income	77,825	50,019	127,844
Unclaimed prizes	(44,827)	(19,042)	(63,869)
Unclaimed free tickets	<u>(1,828)</u>	<u>-</u>	<u>(1,828)</u>
Total revenue allocated to prizes	2,428,668	674,617	3,103,285
Lottery prizes paid	<u>(1,981,253)</u>	<u>(536,525)</u>	<u>(2,517,778)</u>
Balance	447,415	138,092	585,507
Current year accrual (included above)	(3,820)	(5,599)	(5,599)
Prior year accrual	<u>-</u>	<u>3,820</u>	<u>-</u>
Prizes to be paid	<u>\$ 443,595</u>	<u>\$ 136,313</u>	<u>\$ 579,908</u>
Allocation of prizes to be paid:			
Unclaimed and future prizes	\$ 72,794	\$ 6,125	\$ 78,919
Long-term prize obligations	<u>370,801</u>	<u>130,188</u>	<u>500,989</u>
	<u>\$ 443,595</u>	<u>\$ 136,313</u>	<u>\$ 579,908</u>

	9/8/76 to 3/31/86	4/1/86 to 3/31/87	9/8/76 to 3/31/87
<u>Revenue Allocated to Education:</u>			
Instant games (45%)	\$ 517,412	\$ 29,410	\$ 546,822
Lotto games (45%)	1,138,354	343,341	1,481,695
Daily Numbers/Win-Four games (35%)	621,906	210,388	832,294
Win 10 game (45%)	-	13,220	13,220
Other games (45%)	41,926	-	41,926
Allocation of Lottery ticket sales	2,319,598	596,359	2,915,957
Interest income	14,861	103	14,964
Old Lottery interest (1976-77)	2,560	-	2,560
Unclaimed prizes	44,827	19,042	63,869
Administration surplus	136,961	51,286	188,247
Other	32	-	32
Total revenue allocated to Education	2,518,839	666,790	3,185,629
Revenue transferred for Education	(2,503,291)	(654,228)	(3,157,519)
Balance	15,548	12,562	28,110
Current year accrual (included above)	(12,324)	(15,034)	(15,034)
Prior year accrual	-	12,324	-
Allocation of cash revenue payable	<u>\$ 3,224</u>	<u>\$ 9,852</u>	<u>\$ 13,076</u>
<u>Revenue Allocated to Administration:</u>			
Instant games (15%)	\$ 172,471	\$ 9,803	\$ 182,274
Lotto games (15%)	379,451	114,447	493,898
Daily Numbers/Win-Four games (15%)	266,533	90,166	356,699
Win 10 game (15%)	-	4,407	4,407
Other games (15%)	13,975	-	13,975
Allocation of Lottery ticket sales	832,430	218,823	1,051,253
Interest income	8,401	1,434	9,835
Unclaimed free tickets	1,828	-	1,828
Other	1,697	1,086	2,783
Administration surplus	(136,961)	(51,286)	(188,247)
Total revenue allocated to administration	707,395	170,057	877,452
Vendor and distributor commissions and contractor fees	(504,582)	(128,334)	(632,916)
Net revenue allocated to administration	202,813	41,723	244,536
Amount transferred for administrative expenses	(197,342)	(40,857)	(238,199)
Balance	5,471	866	6,337
Current year accrual (included above)	(1,787)	(2,321)	(2,321)
Prior year accrual	-	1,787	-
Allocation of cash revenue payable	<u>\$ 3,684</u>	<u>\$ 332</u>	<u>\$ 4,016</u>