

NEW YORK STATE LOTTERY

Financial Statements for the
Years Ended March 31, 1988 and 1987
and Independent Auditors' Opinion

INDEPENDENT AUDITORS' OPINION

New York State Lottery:

We have audited the accompanying statements of assets and liabilities of New York State Lottery as of March 31, 1988 and 1987 and the related statements of revenue and revenue allocations for the years then ended. These financial statements are the responsibility of the management of the New York State Lottery. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and liabilities of New York State Lottery as of March 31, 1988 and 1987, and the revenue and revenue allocations for the years then ended in conformity with generally accepted accounting principles.

Deloitte Haskins & Sells

July 22, 1988

NEW YORK STATE LOTTERY

STATEMENTS OF ASSETS AND LIABILITIES
MARCH 31, 1988 AND 1987
(In Thousands)

	<u>NOTES</u>	<u>1988</u>	<u>1987</u>
ASSETS:			
Cash (including short-term cash investments)	2	\$ 96,469	\$ 87,064
Accounts receivable	8	18,161	30,065
Investments:	2		
U.S. Government-backed obligations (maturity value, \$1,292,481 in 1988 and \$1,078,630 in 1987 less unamortized discount of \$680,157 in 1988 and \$586,820 in 1987)		612,324	491,810
Long-term cash investments (maturity value, \$15,534 in 1988 and \$13,311 in 1987 less unamortized discount of \$35 in 1988 and \$9 in 1987)		<u>15,499</u>	<u>13,302</u>
TOTAL		<u>\$742,453</u>	<u>\$622,241</u>
LIABILITIES:			
Prizes:			
Allocation of accrued revenue		\$ 3,436	\$ 5,599
Unclaimed and future prizes	10	82,780	78,919
Long-term prize obligations of \$1,299,956 in 1988 and \$1,084,146 in 1987 less unamortized discount of \$676,171 in 1988 and \$583,157 in 1987	3,10	<u>623,785</u>	<u>500,989</u>
		<u>710,001</u>	<u>585,507</u>
Education:			
Allocation of accrued revenue		11,411	15,034
Allocation of cash revenue payable (overpaid)	10	<u>(2,106)</u>	<u>13,076</u>
		<u>9,305</u>	<u>28,110</u>
Administration:			
Allocation of accrued revenue		1,374	2,321
Allocation of cash revenue payable	10	<u>19,345</u>	<u>4,016</u>
		<u>20,719</u>	<u>6,337</u>
Other payables		<u>2,428</u>	<u>2,287</u>
TOTAL		<u>\$742,453</u>	<u>\$622,241</u>

See notes to financial statements.

NEW YORK STATE LOTTERY

STATEMENTS OF REVENUE AND REVENUE ALLOCATIONS
FOR THE YEARS ENDED MARCH 31, 1988 AND 1987
(In Thousands)

	<u>NOTES</u>	<u>1988</u>	<u>1987</u>
REVENUE:			
Ticket sales	1,4	\$1,565,936	\$1,458,822
Less:			
Vendor commissions	7	(93,956)	(87,037)
Contractor fees	7	(40,709)	(41,297)
Net revenue from ticket sales		<u>1,431,271</u>	<u>1,330,488</u>
Interest income	2	65,596	51,556
Other		<u>476</u>	<u>1,086</u>
NET REVENUE		<u>\$1,497,343</u>	<u>\$1,383,130</u>
REVENUE ALLOCATIONS:			
Prizes	1 3,5	\$ 734,983	\$ 674,617
Education	6	706,767	666,790
Administration	7	<u>55,593</u>	<u>41,723</u>
TOTAL REVENUE ALLOCATIONS		<u>\$1,497,343</u>	<u>\$1,383,130</u>

See notes to financial statements.

NEW YORK STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED MARCH 31, 1988 AND 1987

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 non-capitalization 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.

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, Keno (formerly called Win-Ten) and Win-Four games is reported at the dollar value of all tickets sold. Revenue from Lotto subscriptions for fiscal years 1988 and 1987 includes approximately \$5,606,000 and \$6,166,000, 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 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. Interest income earned in each investment fund is used for the specific purpose and benefit of that fund.

At year-end, the carrying amount of the Lottery's deposits was \$5,396,000 and the bank balance was \$8,806,000. Of the bank balance, \$7,000,000 was covered by federal depository insurance or by collateral held by the Lottery's custodial bank in the Lottery's name, and \$1,806,000 was uninsured and uncollateralized.

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 1988 and 1987, approximately \$55,573,000 and \$43,321,000, respectively, of amortized discount was included in interest income. The current market value at March 31, 1988 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)	\$612,324	\$657,402

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 prizes. 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 1988 and 1987, approximately \$55,342,000 and \$43,117,000, 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, 1988, and the total thereafter, is as follows (in Thousands):

1989	\$ 72,236
1990	72,236
1991	72,236
1992	72,236
1993	72,236
1994 and thereafter	<u>938,776</u>
	<u>\$1,299,956</u>

4. REVENUE OF LOTTERY GAMES

Revenue of the various lottery games conducted during the years ended March 31, 1988 and 1987 is as follows:

Game	Started	EndedRevenue.....	
			<u>1988</u>	<u>1987</u>
			(In Thousands)	
Prior to Game 34			\$ 4	\$ 4
Instant Game 34	11/13/84	5/19/85	-	(72)
Instant Game 35	1/15/85	4/08/85	-	224
Instant Game 36	4/09/85	6/10/85	-	115
Instant Game 37	6/11/85	9/09/85	-	101
Instant Game 38	9/10/85	11/11/85	-	(35)
Instant Game 39	11/12/85	1/26/86	-	1
Instant Game 40	1/27/86	5/06/86	-	5,267
Instant Game 41	5/07/86	8/11/86	13	17,713
Instant Game 42	8/12/86	11/03/86	(1)	15,320
Instant Game 43	11/04/86	1/12/87	(1)	12,149
Instant Game 44	1/13/87	4/13/87	(222)	14,567
Instant Game 45	4/14/87	6/22/87	12,019	-
Instant Game 46	6/23/87	9/21/87	23,629	-
Instant Game 47	9/22/87	1/11/88	27,593	-
Instant Game 48	1/12/88	3/28/88	25,101	-
Instant Game 49	3/29/88	(in progress)	<u>8,732</u>	<u>-</u>
Total Instant game sales			96,867	65,354
Lotto	11/02/78	(in progress)	727,263	762,981
Daily Numbers and Win-Four games	9/02/80	(in progress)	684,437	601,110
Keno	1/19/87	(in progress)	<u>57,369</u>	<u>29,377</u>
Total lottery ticket sales			<u>\$1,565,936</u>	<u>\$1,458,822</u>

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

5. PRIZES

Revenue allocated to prizes during the fiscal years ended March 31, 1988 and 1987 is as follows:

	<u>1988</u>	<u>1987</u>
	(In Thousands)	
Lottery prizes paid	\$610,489	\$536,525
Less prior year liability for closed games	(585,507)	(447,415)
Plus current year prize liability	<u>710,001</u>	<u>585,507</u>
Total revenue allocated to prizes	<u>\$734,983</u>	<u>\$674,617</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, 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, 1988 and 1987 is as follows:

	<u>1988</u>	<u>1987</u>
	(In Thousands)	
Revenue transferred for education	\$725,572	\$654,228
Prior year accrual	(28,110)	(15,548)
Amount transferred for revenues reported during the year	697,462	638,680
Provision for education	<u>9,305</u>	<u>28,110</u>
Total revenue allocated to education	<u>\$706,767</u>	<u>\$666,790</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, 1988 and 1987 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 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 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, 1988 and 1987 is as follows:

	<u>1988</u>	<u>1987</u>
	(In Thousands)	
Current year administration payments	\$41,211	\$40,857
Prior year accrual	(6,337)	(5,471)
Administration surplus	46,745	51,286
Administration surplus transferred to education	<u>(46,745)</u>	<u>(51,286)</u>
Amounts transferred for current year's administration expenses	34,874	35,386
Provision for administration	<u>20,719</u>	<u>6,337</u>
Net revenue allocated to administration	<u>\$55,593</u>	<u>\$41,723</u>

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

8. ACCOUNTS RECEIVABLE

Accounts receivable at March 31, 1988 and 1987 are as follows:

	<u>1988</u>	<u>1987</u>
	(In Thousands)	
Accrued ticket sales:		
Instant games	\$ 8,557	\$ 1,061
Lotto games	8,185	17,009
Daily Numbers games	9,805	16,489
Keno	802	2,462
	<u>27,349</u>	<u>37,021</u>
Less:		
Contractor fees and commissions payable	(2,757)	(3,242)
Prizes paid by agents	<u>(8,559)</u>	<u>(10,891)</u>
Net accrued ticket sales	16,033	22,888
Contractor receivable	-	5,201
Accrued interest	1,293	1,104
Other	<u>835</u>	<u>872</u>
Total accounts receivable	<u>\$18,161</u>	<u>\$30,065</u>

9. DEFINED BENEFIT PENSION PLAN

Substantially all Lottery employees participate in the New York State Employees' Retirement System ("the System"), a multiple-employer public employee retirement system.

The System provides retirement benefits as well as death and disability benefits. All benefits vest after 10 years of credited service. Retirement benefits that employees are entitled to are established by New York State law and are dependent upon the point in time at which the employee last joined the System. These retirement plans have both contributory and noncontributory requirements depending upon the point in time at which an employee last joined the System. Most members of the System who joined before July 27, 1976 are enrolled in a noncontributory plan and may retire at age 55. Employees who last joined the System on or after July 27, 1976 are enrolled in a contributory plan which requires a 3% contribution of their salary and may retire at age 62. A public employee who joined the System during the period of July 27, 1976 to August 31, 1983 and leaves covered employment before 10 years of credited service may obtain a refund including interest of the accumulated employee contributions. Employees who joined the System subsequent to August 31, 1983 may not withdraw accumulated employee contributions with interest until they become age 62.

The contribution requirement for the year ended March 31, 1988 was \$618,557, which consisted of \$523,112 from the Lottery and \$95,445 from employees; these contributions represented 8.9% and 1.6% of covered payroll respectively.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems and employers. The System does not make separate measurements of assets and pension benefit obligation for individual employers. The pension benefit obligation at March 31, 1988 for the System as a whole, determined through an actuarial valuation performed as of that date, was \$28,794,000,000. The System's net assets available for benefits on that date (valued at market) were \$32,663,000,000, resulting in assets in excess of pension benefit obligation of \$3,869,000,000. The Lottery's 1988 contribution represented .05 percent of total contributions required of all participating entities.

The ten-year historical trend information, of which information for two years is available, showing the System's progress accumulating sufficient assets to pay benefits when due is presented in the System's annual financial report.

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, 1988:

	9/8/76 to <u>3/31/87</u>	4/1/87 to <u>3/31/88</u>	9/8/76 to <u>3/31/88</u>
	(In Thousands)		
<u>Revenue:</u>			
Instant games sales	\$1,215,159	\$ 96,867	\$1,312,026
Lotto games sales	3,292,655	727,263	4,019,918
Daily Numbers/Win-Four games sales	2,377,990	684,437	3,062,427
Keno game sales	29,377	57,369	86,746
Other games sales	<u>93,168</u>	<u>93,168</u>	<u>93,168</u>
Lottery ticket sales	7,008,349	1,565,936	8,574,285
Interest income	152,643	65,596	218,239
Old Lottery interest (1976-77)	2,560		2,560
Other	<u>2,815</u>	<u>476</u>	<u>3,291</u>
Total revenue	<u>\$7,166,367</u>	<u>\$1,632,008</u>	<u>\$8,798,375</u>
<u>Revenue Allocated to Prizes:</u>			
Instant games (40%)	\$ 486,064	\$ 38,747	\$ 524,811
Lotto games (40%)	1,317,062	290,905	1,607,967
Daily Numbers/Win-Four games (50%)	1,188,994	342,218	1,531,212
Keno game (40%)	11,751	22,948	34,699
Other games (40%)	<u>37,267</u>	<u>37,267</u>	<u>37,267</u>
Allocation of Lottery ticket sales	3,041,138	694,818	3,735,956
Interest income	127,844	63,882	191,726
Unclaimed prizes	(63,869)	(23,717)	(87,586)
Unclaimed free tickets	<u>(1,828)</u>	<u>(1,828)</u>	<u>(1,828)</u>
Total revenue allocated to prizes	3,103,285	734,983	3,838,268
Lottery prizes paid	<u>(2,517,778)</u>	<u>(610,489)</u>	<u>(3,128,267)</u>
Balance	585,507	124,494	710,001
Current year accrual (included above)	(5,599)	(3,436)	(3,436)
Prior year accrual	<u>-</u>	<u>5,599</u>	<u>-</u>
Prizes to be paid	<u>\$ 579,908</u>	<u>\$ 126,657</u>	<u>\$ 706,565</u>

	9/8/76 to <u>3/31/87</u>	4/1/87 to <u>3/31/88</u>	9/8/76 to <u>3/31/88</u>
	(In Thousands)		
Allocation of prizes to be paid:			
Unclaimed and future prizes	\$ 78,919	\$ 3,861	\$ 82,780
Long-term prize obligations	<u>500,989</u>	<u>122,796</u>	<u>623,785</u>
	<u>\$ 579,908</u>	<u>\$ 126,657</u>	<u>\$ 706,565</u>
<u>Revenue Allocated to Education:</u>			
Instant games (45%)	\$ 546,822	\$ 43,590	\$ 590,412
Lotto games (45%)	1,481,695	327,269	1,808,964
Daily Numbers/Win-Four games (35%)	832,294	239,553	1,071,847
Keno game (45%)	13,220	25,816	39,036
Other games (45%)	<u>41,926</u>	<u>-</u>	<u>41,926</u>
Allocation of Lottery ticket sales	2,915,957	636,228	3,552,185
Interest income	14,964	77	15,041
Old Lottery interest (1976-77)	2,560	-	2,560
Unclaimed prizes	63,869	23,717	87,586
Administration surplus	188,247	46,745	234,992
Other	<u>32</u>	<u>-</u>	<u>32</u>
Total revenue allocated to Education	3,185,629	706,767	3,892,396
Revenue transferred for Education	<u>(3,157,519)</u>	<u>(725,572)</u>	<u>(3,883,091)</u>
Balance	28,110	(18,805)	9,305
Current year accrual (included above)	(15,034)	(11,411)	(11,411)
Prior year accrual	<u>-</u>	<u>15,034</u>	<u>-</u>
Allocation of cash revenue payable (overpaid)	<u>\$ 13,076</u>	<u>\$ (15,182)</u>	<u>\$ (2,106)</u>

	9/8/76 to <u>3/31/87</u>	4/1/87 to <u>3/31/88</u>	9/8/76 to <u>3/31/88</u>
	(In Thousands)		
<u>Revenue Allocated to</u>			
<u>Administration:</u>			
Instant games (15%)	\$ 182,274	\$ 14,530	\$ 196,804
Lotto games (15%)	493,898	109,089	602,987
Daily Numbers/Win-Four games (15%)	356,699	102,666	459,365
Keno game (15%)	4,407	8,605	13,012
Other games (15%)	<u>13,975</u>	<u>-</u>	<u>13,975</u>
Allocation of Lottery ticket sales	1,051,253	234,890	1,286,143
Interest income	9,835	1,637	11,472
Unclaimed free tickets	1,828	-	1,828
Other	2,783	476	3,259
Administration surplus	<u>(188,247)</u>	<u>(46,745)</u>	<u>(234,992)</u>
Total revenue allocated to administration	877,452	190,258	1,067,710
Vendor and distributor com- missions and contractor fees	<u>(632,916)</u>	<u>(134,665)</u>	<u>(767,581)</u>
Net revenue allocated to administration	244,536	55,593	300,129
Amount transferred for administrative expenses	<u>(238,199)</u>	<u>(41,211)</u>	<u>(279,410)</u>
Balance	6,337	14,382	20,719
Current year accrual (included above)	(2,321)	(1,374)	(1,374)
Prior year accrual	<u>-</u>	<u>2,321</u>	<u>-</u>
Allocation of cash revenue payable	<u>\$ 4,016</u>	<u>\$ 15,329</u>	<u>\$ 19,345</u>