

**NEW YORK STATE LOTTERY**

**FINANCIAL STATEMENTS  
(AND REPORT OF INDEPENDENT ACCOUNTANTS)**

***For the Years Ended March 31, 1990 and 1989***

C O N T E N T S

	<u>Page</u>
REPORT OF INDEPENDENT ACCOUNTANTS	1
FINANCIAL STATEMENTS	
Statements of assets and liabilities	2
Statements of revenue and revenue allocations	3
Statements of changes in assets and liabilities	4
Notes to financial statements	5-12

REPORT OF INDEPENDENT ACCOUNTANTS

New York State Lottery

We have audited the statements of assets and liabilities of the New York State Lottery as of March 31, 1990 and 1989, and the related statements of revenue and revenue allocations, and changes in assets and liabilities 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 the New York State Lottery as of March 31, 1990 and 1989, and its revenue and revenue allocations and its changes in assets and liabilities for the years then ended in conformity with generally accepted accounting principles.

*Coopers & Lybrand*

Albany, New York  
June 4, 1990

NEW YORK STATE LOTTERY  
 STATEMENTS OF ASSETS AND LIABILITIES  
 March 31, 1990 and 1989  
 (In Thousands)

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	<u>1990</u>	<u>1989</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 105,377	\$ 112,231
Accounts receivable	28,495	16,212
Investments, at amortized cost	<u>882,682</u>	<u>752,465</u>
Total assets	<u>\$1,016,554</u>	<u>\$ 880,908</u>
 <u>LIABILITIES</u>		
Prizes:		
Unclaimed and future prizes	\$ 123,333	\$ 101,817
Long-term prize obligations	<u>890,048</u>	<u>762,290</u>
	1,013,381	864,107
Overtransfer to education	( 9,430)	( 8,752)
Administration	8,558	17,883
Other payables	4,045	7,670
Commitments and contingencies (Note 9)	<u>          </u>	<u>          </u>
Total liabilities	<u>\$1,016,554</u>	<u>\$ 880,908</u>

The accompanying notes are an integral part of the financial statements.

NEW YORK STATE LOTTERY  
 STATEMENTS OF REVENUE AND REVENUE ALLOCATIONS  
 For the Years Ended March 31, 1990 and 1989  
 (In Thousands)

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	<u>1990</u>	<u>1989</u>
Revenue:	\$2,058,139	\$1,847,097
Ticket sales		
Less:		
Agent commissions	( 123,488)	( 110,837)
Contractor fees	( 50,393)	( 44,216)
Net revenue from ticket sales	1,884,258	1,692,044
Interest income	84,305	76,782
Other income	1,721	1,157
Total revenue	1,970,284	1,769,983
Revenue allocations:		
Prizes	979,538	875,425
Administration	63,637	64,407
Revenue allocations to prizes and administration	1,043,175	939,832
Revenue allocation to education	\$ 927,109	\$ 830,151

The accompanying notes are an integral  
 part of the financial statements.

NEW YORK STATE LOTTERY

STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES  
For the Years Ended March 31, 1990 and 1989  
(In Thousands)

	<u>1990</u>	<u>1989</u>
<b>SOURCES OF CASH:</b>		
Ticket sales	\$2,058,139	\$1,847,097
Interest and other income	<u>86,026</u>	<u>77,939</u>
	2,144,165	1,925,036
<b>Item not providing cash:</b>		
Amortization of discount on investments	( <u>70,456</u> )	( <u>64,444</u> )
	2,073,709	1,860,592
Proceeds from sale of investments	4,598	24,756
Proceeds from investment maturities	90,894	72,567
Decrease in accounts receivable		1,949
Increase in other payables		<u>5,242</u>
	<u>2,169,201</u>	<u>1,965,106</u>
<b>USES OF CASH:</b>		
Payments of prizes	830,921	721,292
Payments of agent commissions	123,488	110,837
Payments of contractors fees	50,393	44,216
Payments of lottery administration expenses	72,249	67,243
Purchases of investments	155,110	157,548
Increase in accounts receivable	12,283	
Decrease in other payables	<u>3,625</u>	
	1,248,069	1,101,136
Transfer to education	<u>927,986</u>	<u>848,208</u>
	<u>2,176,055</u>	<u>1,949,344</u>
Net (decrease) increase in cash and cash equivalents	( 6,854)	15,762
Cash and cash equivalents, beginning of year	<u>112,231</u>	<u>96,469</u>
Cash and cash equivalents, end of year	<u>\$ 105,377</u>	<u>\$ 112,231</u>

The accompanying notes are an integral part of the financial statements.

NEW YORK STATE LOTTERY  
NOTES TO FINANCIAL STATEMENTS

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1. Summary of Significant Accounting Policies

The 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 purpose of the Lottery is to raise revenue for education in the State of New York ("State") through the administration of lottery games.

The Lottery is included within the financial reporting entity of the State of New York. Within the General Purpose Financial Statements of the State of New York, the Lottery is accounted for within two funds. The revenues and expenditures for administration, aid to education and prizes are reported in a Special Revenue Fund. Monies for prizes are transferred to a Lottery Agency Fund for payment of prizes as claims are filed. The accompanying financial statements include the accounts of both funds and are presented in a manner similar to that of an enterprise fund. The accounting policies of the Lottery conform in all material respects to generally accepted accounting principles whereby revenue is recognized when earned and expenses are recognized when incurred.

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, Cash 40, Daily Numbers, Keno and Win-Four games is reported at the dollar value of all tickets sold. Revenue from ticket sales includes subscription sales for future drawings of approximately \$7,567,000 and \$7,571,000 for fiscal years 1990 and 1989, respectively.

Effective April 1, 1990, the Lottery replaced Keno with Pick-10, a game with similar features.

Commissions and Fees

Agents receive a commission of six percent based on the total tickets sold. Contractors receive a fee equal to a contractual percentage of the revenues generated through the respective network maintained by each contractor (see Note 9).

Revenue Allocation

The allocation of ticket sales is made in accordance with the provisions of the New York State Lottery for Education Law which requires:

allocations of ticket sales revenue to New York State for educational purposes to be at least 35 percent for the Daily Numbers, Win-Four and Instant games and 45 percent for Lotto, Cash 40 and Keno.

NEW YORK STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS, Continued

1. Summary of Significant Accounting Policies, Continued

- allocations of ticket sales revenue for the payment of lottery prizes not to exceed 50 percent for the Daily Numbers, Win-Four and Instant games and 40 percent for Lotto, Cash 40 and Keno.
- allocations of ticket sales revenue from all games for the payment of lottery administration expenses (including agent commissions and contractors' fees) not to exceed 15 percent. Any excess of the maximum allocation over administration expenses is allocated to education. Such allocations amounted to approximately \$75,297,000 and \$61,428,000 for fiscal years 1990 and 1989, respectively. Administration expenses incurred by the Lottery represent the cost of developing and printing lottery tickets, advertising, salary and other operating costs and include an accrual for expenses to be paid after the fiscal year-end.

Investments

Investments, consisting of U.S. Government-backed obligations, are carried at amortized cost. The periodic amortization of discount is recorded as interest income in these financial statements.

Unclaimed and Future Prizes

Prizes unclaimed for one year after the drawing date are forfeited by the ticket holders and are allocated to education. Such allocations amounted to approximately \$31,896,000 and \$23,778,000 for fiscal years 1990 and 1989, respectively.

New legislation passed during fiscal year 1990 requires the Lottery to transfer unclaimed prizes to education six months after a drawing in anticipation of a possible forfeiture. Such transfer is in addition to the allocation to education and amounted to \$14,852,000 during the fiscal year ended March 31, 1990. Funds for prizes claimed and paid between six and twelve months after a drawing are reimbursed from the subsequent transfer to the education account. All prizes can still be claimed for twelve months after a drawing.

Future prizes represent the difference between the maximum allocation to prizes and the amount allocated to the winning pools of Lottery games. Such amounts are disbursed, as determined by management, for the sole benefit of Lottery game winners.

Long-term Prize Obligations

The liability for long-term prize winners is for those prizes which are payable in annual installments. Such prize payments are funded by the Lottery's investment in U.S. Government-backed securities. The periodic amortization of discount is included in revenue allocated to prizes in these financial statements. Any excess of security maturities over prize payments is made available for prizes.

Cash and Cash Equivalents

Cash and cash equivalents include amounts held with banks and amounts held under the joint custody of the Lottery and the Office of the State Comptroller of the State of New York through their Short-term Investment Pool.

NEW YORK STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS, Continued

1. Summary of Significant Accounting Policies, Continued

Reclassifications

Certain 1989 amounts have been reclassified to conform to the 1990 presentation.

2. Cash and Cash Equivalents

Lottery deposits and investments are made in accordance with New York State statutes.

Lottery sales receipts are allocated and deposited in investment fund accounts for prizes, education and administration under the joint custody of the Lottery and the Office of the State Comptroller of the State of New York. The accounts for prizes and administration earn interest through participation in a short-term investment pool administered by the State Comptroller. The carrying and market value of the accounts included in cash and cash equivalents were \$107,145,000 and \$113,217,000 at March 31, 1990 and 1989, respectively. Interest income earned in each investment account is used for the specific purpose and benefit of that account.

The Lottery also maintains sole custody accounts which are used for daily cash management purposes. Book overdrafts included in cash and cash equivalents related to sole custody accounts were \$1,768,000 and \$986,000 for fiscal years 1990 and 1989, respectively. The Lottery's deposits in sole custody accounts at March 31, 1990 were entirely covered by either federal depository insurance or by collateral pledged by the custodial bank to the State of New York on behalf of the Lottery.

3. Investments

The Lottery is authorized to invest in U.S. Government-backed obligations (zero coupon bonds and stripped Government securities), which will provide for the payment of the long-term prize obligations (see Note 4). During fiscal years 1990 and 1989, approximately \$70,456,000 and \$64,444,000, respectively, of amortized discount was included in interest income.

These investments consisted of the following at March 31 (in thousands):

	<u>1990</u>	<u>1989</u>
Maturity value	\$1,779,896	\$1,553,186
Less unamortized discount	<u>897,214</u>	<u>800,721</u>
Carrying value	<u>\$ 882,682</u>	<u>\$ 752,465</u>
Market value	<u>\$ 926,943</u>	<u>\$ 774,132</u>

NEW YORK STATE LOTTERY  
 NOTES TO FINANCIAL STATEMENTS, Continued

3. Investments, Continued

Maturities of the investments in each of the five fiscal years following March 31, 1990, and the total thereafter, are as follows (in thousands):

	\$ 104,745
1991	105,402
1992	104,433
1993	103,950
1994	104,698
1995	<u>1,256,668</u>
1996 and thereafter	<u>\$1,779,896</u>

The Lottery's investments are held in custodial accounts in bearer form or in the name of the custodian or its nominee on behalf of the Lottery.

Disclosures relating to risk and type of investments as presented above are indicative of activity and positions held during the year.

4. Long-term Prize Obligations

The long-term prize obligations consisted of the following at March 31 (in thousands):

	<u>1990</u>	<u>1989</u>
Total obligation	\$1,783,194	\$1,558,936
Less unamortized discount	<u>893,146</u>	<u>796,646</u>
Net obligation	<u>\$ 890,048</u>	<u>\$ 762,290</u>

The amortized discount on the long-term obligation is based on interest rates which range from 6.28 percent to 13.55 percent and reflect the interest rates earned by the investments held to fund the related liabilities. During fiscal years 1990 and 1989, approximately \$70,198,000 and \$64,197,000, 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, 1990, and the total thereafter, is as follows (in thousands):

	\$ 104,361
1991	104,361
1992	104,361
1993	104,361
1994	104,361
1995	<u>1,261,389</u>
1996 and thereafter	<u>\$1,783,194</u>

NEW YORK STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS, Continued

5. Operating Segment Information

Operating segment information for fiscal 1990 and 1989 by type of lottery game is as follows (in thousands):

	<u>1990</u>				
	<u>Lotto and Cash 40</u>	<u>Keno</u>	<u>Daily Numbers and Win-Four</u>	<u>Instant Games</u>	<u>Total</u>
Ticket sales	\$929,493	\$ 65,591	\$860,563	\$202,492	\$2,058,139
Prizes	( 423,553)	( 24,308)	( 429,308)	( 102,369)	( 979,538)
Commissions and fees	( 71,593)	( 5,101)	( 66,903)	( 30,284)	( 173,881)
Interest and other income	77,488	496	6,510	1,532	86,026
Administrative costs	( 31,916)	( 2,229)	( 29,266)	( 226)	( 63,637)
Allocation to education	<u>\$479,919</u>	<u>\$ 34,449</u>	<u>\$341,596</u>	<u>\$ 71,145</u>	<u>\$ 927,109</u>

	<u>1989</u>				
	<u>Lotto and Cash 40</u>	<u>Keno</u>	<u>Daily Numbers and Win-Four</u>	<u>Instant Games</u>	<u>Total</u>
Ticket sales	\$841,668	\$ 65,652	\$781,651	\$158,126	\$1,847,097
Prizes	( 389,009)	( 24,791)	( 389,520)	( 72,105)	( 875,425)
Commissions and fees	( 65,115)	( 5,164)	( 61,326)	( 23,448)	( 155,053)
Interest and other income	71,383	481	5,047	1,028	77,939
Administrative costs	( 32,443)	( 2,455)	( 29,118)	( 391)	( 64,407)
Allocation to education	<u>\$426,484</u>	<u>\$ 33,723</u>	<u>\$306,734</u>	<u>\$ 63,210</u>	<u>\$ 830,151</u>

Administrative costs are allocated to each game based on net revenue from ticket sales.

6. Education

Revenue allocation to education during the fiscal years ended March 31, 1990 and 1989 is as follows:

	<u>1990</u>	<u>1989</u>
Revenue transferred for education	\$927,986	\$848,208
Prior year overtransfer	8,752	( 9,305)
Other adjustments	( 199)	
Amount transferred from current year revenue	936,539	838,903
Current year overtransfer	( 9,430)	( 8,752)
Revenue allocation to education	<u>\$927,109</u>	<u>\$830,151</u>

NEW YORK STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS, Continued

7. Defined Benefit Pension Plan

Substantially all Lottery employees participate in the New York State Employees' Retirement System ("the System"), a cost-sharing multiple-employer public employee retirement system. The payroll for employees covered by the system for the year ended March 31, 1990 was approximately \$6,184,500; the Lottery's total payroll was \$6,291,500.

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 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. Members, benefits, and employer and employee obligations to contribute are described in the New York State Retirement and Social Security Law. The number of members and benefit recipients of the System as of March 31, 1989 (1990 plan data is not available) totaled approximately 807,000, including 239,000 retirees and beneficiaries currently receiving benefits and no longer working members entitled to benefits but not yet receiving them; 74,000 nonvested inactive members, and 494,000 current working members.

The contribution requirement for the year ended March 31, 1990 was \$500,276 which consisted of \$394,187 from the Lottery and \$106,089 from employees; these contributions represented 6.4% and 1.7% of covered payroll, respectively.

The contribution requirement for the year ended March 31, 1989 was \$460,304, which consisted of \$361,319 from the Lottery and \$98,985 from employees; these contributions represented 6.2% and 1.7% 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, 1989 for the System as a whole, determined through an actuarial valuation performed as of that date, was \$27,630,000,000. The System's net assets available for benefits on that date (valued at market) were \$36,390,000,000 resulting in assets in excess of pension benefit obligation of \$8,760,000,000. The Lottery's 1989 contribution represented .04 percent of total contributions required of all participating entities.

Ten-year historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's March 31, 1989 annual-financial report.

NEW YORK STATE LOTTERY

NOTES TO FINANCIAL STATEMENTS, Continued

8. Deferred Compensation

New York State offers its employees, including lottery employees, a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the State (without being restricted to the provisions of benefits under the plan), subject only to the claims of the State's general creditors. Participants' rights under the plan are equal to those of general creditors of the State in an amount equal to the fair market value of the deferred account for each participant. The assets and liabilities related to this plan are recorded in the State's financial statements.

9. Commitments and Contingencies

Contractual arrangements:

The New York State Lottery maintains two parallel on-line gaming networks, each comprised of several thousand agent terminals. The Lottery contracts the operations of such networks with two contractors, GTECH Corporation (GTECH) and Control Data Corporation (CDC). The GTECH contract is for a term of approximately five years expiring December 31, 1992, and the CDC contract is for a term of six years expiring September 1, 1993. The New York State Lottery also contracts the operations of the Instant games with Scientific Games, Inc. This contract is for a term of approximately six years expiring January 13, 1992.

Insurance annuities:

Prior to 1983, the Lottery had entered into agreements with insurance companies under which the Lottery purchased annuities under contracts that provide payments corresponding to the Lottery's obligation to the prize winners. Because it is the intent of the Lottery that the insurance companies make future installment payments directly to each prize winner, neither the present value of the annuities nor the present value of the related future payments are reflected in the accompanying financial statements. The Lottery may be liable for such future payments if the insurance companies were to default on their payments. Unpaid amounts under these arrangements approximated \$134,000,000 at March 31, 1990.

Litigation:

The Lottery has been named as a defendant in several lawsuits. While the ultimate outcome of these lawsuits cannot be predicted at this time, it is the opinion of management and in-house counsel that the disposition of any litigation in which the Lottery is involved will not have a material adverse effect on the financial position of the Lottery.

NEW YORK STATE LOTTERY  
NOTES TO FINANCIAL STATEMENTS, Continued

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9. Commitments and Contingencies, Continued

Federal Communications Commission (FCC) ruling:

On February 21, 1990, the FCC ruled, in response to a request from New York Telephone Company, that the New York Telephone Company should be permitted to retroactively charge intrastate rates rather than interstate rates for data telecommunications lines supplied to American Telephone and Telegraph Company (AT&T) for use by the Lottery. The Lottery estimates the amount of retroactive adjustment to approximate \$10,108,000.

The Lottery and AT&T have petitioned the FCC to reconsider its ruling, and those petitions are currently pending.

The ultimate outcome of this ruling cannot be predicted at this time. Management and in-house counsel believe that the final ruling will have no material impact on the financial position of the Lottery. Accordingly, no adjustment has been made to the accompanying financial statements.