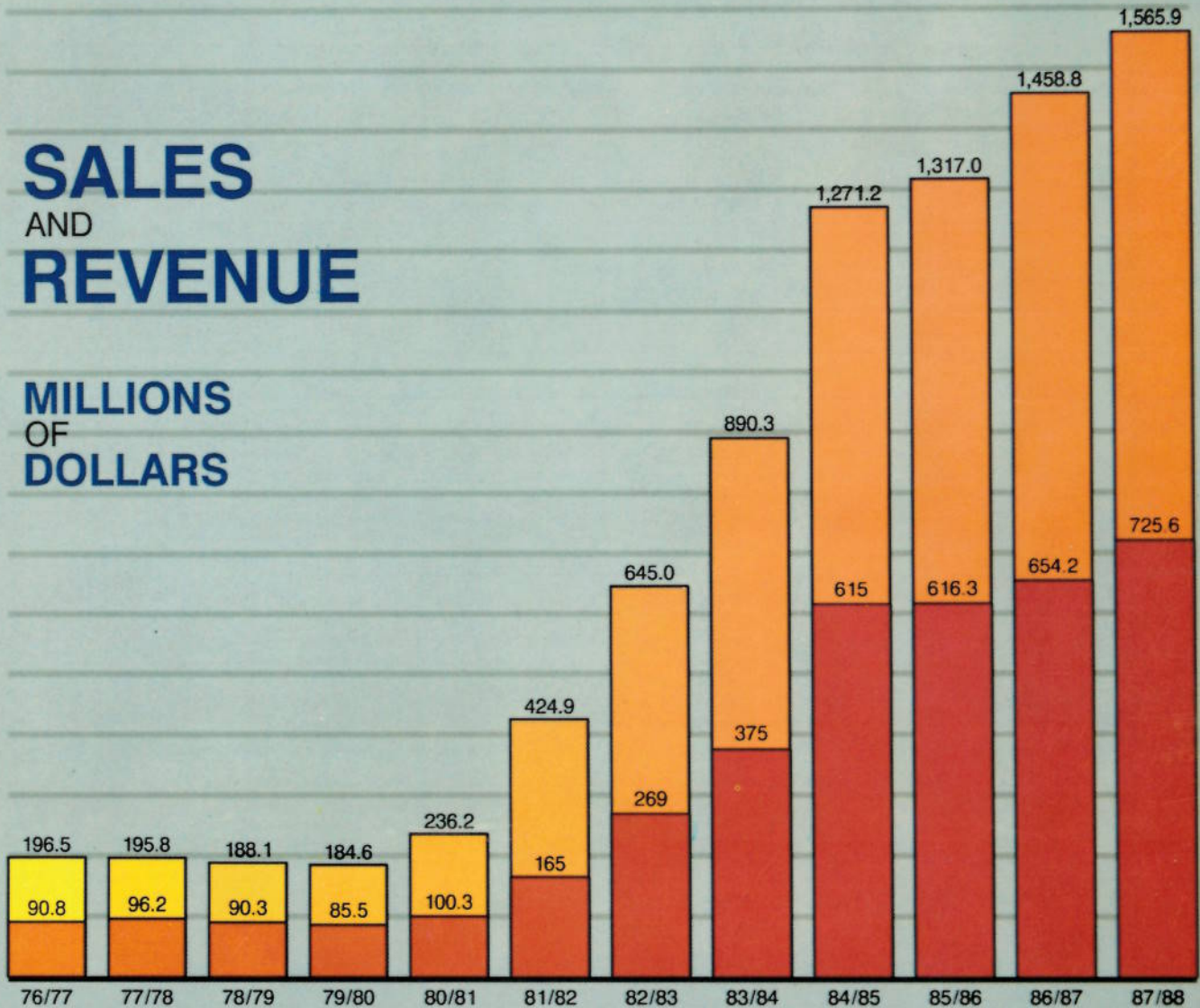




ANNUAL REPORT 1987-88

SALES AND REVENUE

MILLIONS
OF
DOLLARS





THE NEW YORK STATE LOTTERY

SWAN STREET BUILDING
EMPIRE STATE PLAZA
ALBANY, NEW YORK 12223

RUSSELL V. GLADIEUX
ACTING DIRECTOR

November 3, 1988

The Honorable James W. Wetzler
Commissioner
New York State Department of Taxation & Finance
State Campus
Tax and Finance Building
Albany, New York 12227

Dear Commissioner Wetzler:

In accordance with the provisions of subdivision (c) section 1604 of the Tax Law I am pleased to submit herewith a copy of the annual report of the Division of the Lottery for fiscal year 1987-88.

The information in this report provides the "summary of Lottery revenues, prize disbursements and other expenses," for fiscal year 1987-88 required in your report to the Governor and Legislature as specified in the above statute.

Fiscal year 1987-88 was a record year for the New York State Lottery with sales and net revenue to the State increasing more than 10 percent. Fiscal year 1988-89 will show continued improvements. We have established a long-term objective for the Lottery to increase sales and revenues measured by per capita standards to match the performance of neighboring industrialized states. Based upon current sales and revenue per capita, the New York Lottery has a long way to grow with its current mix of products.

Our strategy to achieve this objective is three pronged:

- Enhancing the attractiveness of our products through, for example, the implementation of a higher level of prize payout for our Instant Games authorized by the Legislature this year and offering our customers the option of having the computer randomly select their play numbers for our on-line games, a feature commonly referred to as "Quick Pick".
- The implementation last month of a more sophisticated and attractive advertising approach featuring everyday people revealing their dreams of winning. With this change our advertising is for the first time targeted at a broad base of infrequent lottery players aged twenty-five to forty-nine with above average income and education.
- A fresh look at the methods and criteria by which we license retail establishments for the distribution of our products.

All of the staff here in the Lottery are proud of this agency's contribution in assisting the State's aid payments to the school districts over the years. We approach fiscal year 1988-89 and the future with confidence and a commitment to become an even more important source of revenue for the State.

Sincerely,

Russell V. Gladieux
Acting Director

The Lottery

The mission of the New York State Lottery is to earn revenue to help support education in New York State.

In the 12 years since it returned to the marketplace in September 1976, New York's Lottery has raised \$3.88 billion for the State. With two minor exceptions, all of these revenues have helped New York provide financial assistance to its local elementary and secondary schools.

Fiscal year 1987-88 was the Lottery's best ever.

Sales reached a record high of \$1.565 billion.

Earnings of \$725.6 million on behalf of education were the most ever in a single year and a 10.9 percent increase over 1986-87 earnings.

It marked the eighth successive year in which sales and revenues set new records.

It also marked the fourth consecutive year in which sales exceeded one billion dollars.

Here is how the Lottery fared in 1987-88 and since it returned to the marketplace in September 1976:

(In Millions of Dollars)

SALES:

Fiscal Years 1976-87	\$7,008.4
Fiscal Year 1987-88	1,565.9

TOTAL	\$8,574.3
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REVENUE FOR THE STATE:

Fiscal Years 1976-87	\$3,157.6
Fiscal Year 1987-88	725.6

TOTAL	\$3,883.2
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For the eighth straight year, Lottery sales and earnings have reached new records.

- \$1.565 billion in sales.
- \$725.6 million for education.
- Prizes valued at \$803.5 million.
- 81 winners of a prize of a million dollars or more.
- \$94 million in commissions to ticket sellers.

From September 1976, when the Lottery returned to the marketplace, through March 31, 1988, the conclusion of the 1987-88 Fiscal Year, it is able to report:

- \$8.57 billion in sales.
- \$3.88 billion earned for New York State.
- Prizes valued at \$4.6 billion awarded.
- 587 winners of prizes of a million dollars or more.
- \$514.5 million in commissions to ticket sellers.

On average, over the eleven and a half years between September 1976 and March 1988, the Lottery has earned for New York State:

- \$334.7 million a year.
- \$27.9 million a month.
- \$6.3 million a week.
- \$918,883 a day.

Sales and revenues for 1976 to 1988 are shown below:
(in millions of dollars)

FISCAL YEAR	SALES	REVENUES EARNED FOR NEW YORK STATE
1976-77	\$ 196.5	\$ 90.8
1977-78	195.8	96.2
1978-79	188.1	90.3
1979-80	184.6	85.5
1980-81	236.2	100.3
1981-82	424.9	165.0
1982-83	645.0	269.0
1983-84	890.3	375.0
1984-85	1,271.2	615.0
1985-86	1,317.0	616.3
1986-87	1,458.8	654.2
1987-88	1,565.9	725.6
TOTALS	\$8,574.3	\$3,883.2

NEW YORK'S INSTANT LOTTERY

The familiar "scratch off" Instant Lottery ticket was introduced in September 1976.

First week's sales were \$18 million—then a national lottery record.

The appeal of the game is its simplicity. Just rub off the covering, usually six boxes or symbols, match three amounts or scores and you win the indicated prize.

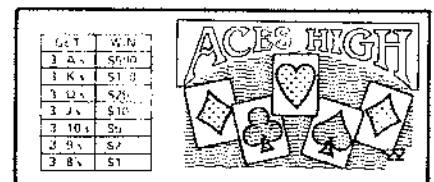
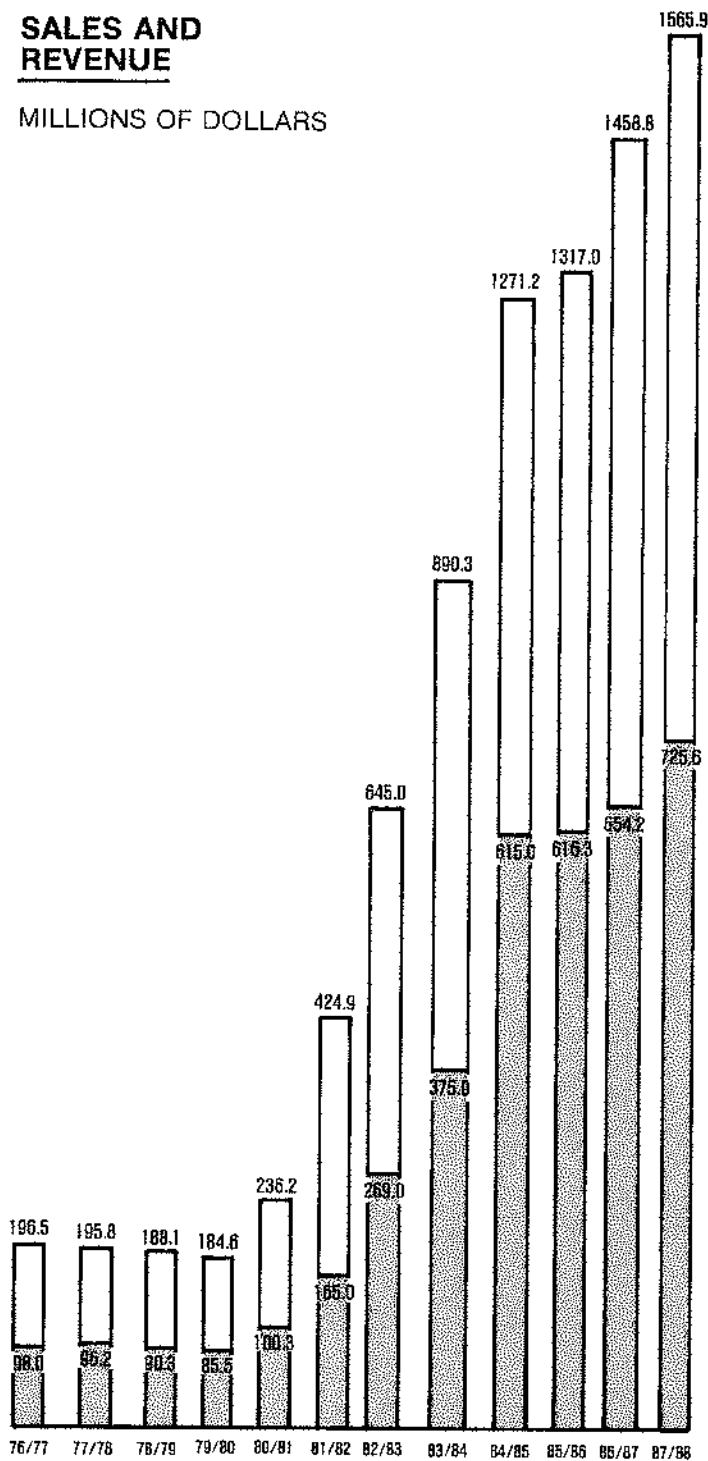
There were often other ways of winning in the Instant game. Grand prize drawings produced the Lottery's first millionaire. There were 40 Instant Lottery million-dollar-plus prize winners in all.

There were also write-in entries and other features added through the years as competition from other new type lottery games increased.

In FY 87-88, however, the Lottery put the "Instant" back into the Instant Game. Beginning in June, all the write-ins and special drawings were eliminated. All of the prizes—and all of the prize monies—are won by scratching off those covered boxes. And all but the top prize—now no more than \$500—can be collected on the spot from the selling agent. The player can also collect the biggest prize at any of the Lottery's five regional offices.

SALES AND REVENUE

MILLIONS OF DOLLARS



The return to the classic instant game formula has proven a success. The final instant game of the fiscal year—ACES HIGH—had average weekly sales more than double those of the last game prior to the June revamp of the games.

Aid to Education

The \$725.6 million earned for education in Fiscal Year 1987-88 was a record, the eighth straight year-to-year increase and the eighth consecutive year in which educational earnings set new records.

On average, the Lottery earned \$1.987 million every single day in Fiscal Year 1987-88 for education.

Two questions most asked of the Lottery are:

1. Where does the Lottery money go? and
2. If the Lottery is earning so much money for education, and it's really going to education, how come my taxes keep going up?

Let's look at Fiscal Year 1987-88 and find, in the accomplishments of those twelve months, the answers to these questions.

The answer to Question No. 1:

The Lottery earned \$725.6 million for education in Fiscal 1987-88. These earnings resulted from sales of \$1.565 billion.

They represented almost ten cents of every State aid dollar provided to the local school districts. In exact figures, 9.9 percent of the State's money help to local school districts was provided by the Lottery's earnings.

It must be noted that in Fiscal Year 1987-88, New York State increased its money help to the local schools by \$700 million over the prior year. In the same year, Lottery earnings—which help fund that State aid—totaled \$725.6 million, an increase of \$71 million over the prior year.

In the last decade, Lottery aid for education has increased 800 percent. In Fiscal Year 1978-79, Lottery earnings were \$90.3 million. Nine years later, in Fiscal Year 1987-88 Lottery earnings for education totaled \$725.6 million—eight times greater.

In Fiscal Year 1978-79, Lottery aid represented 2.9 percent of the State's money help to schools; in 1987-88, it represented 9.9 percent, a more than three-fold increase.

The answer to Question No. 2:

Lottery revenues do, indeed, help education. But it is important to keep in mind that Lottery aid to the local schools is not "extra" or "in addition to", but rather is part of the State's aid to schools. In the absence of Lottery earnings, the State would have to find other sources for the \$725.6 million earned in Fiscal Year 1987-88. This almost three quarters of a billion dollars would have to be replaced by either the reduction in other State appropriations or State services, or by increased taxes. It cannot be automatically assumed that without the availability of Lottery earnings to help out, that the level of State assistance to local schools would be maintained without confronting the latter mentioned possibilities.

Also to be noted is the fact that Lottery earnings is money provided voluntarily.

Lottery aid payments made in 1987-88 by county are listed at the right. A complete list of the Lottery payments made to the more than 700 individual school districts is available upon request from the Lottery. Mail requests should be addressed to: The New York State Lottery, Public Relations Unit, Empire State Plaza, Albany, New York 12223.

DISTRIBUTION OF LOTTERY REVENUES

	INSTANT/LOTTO KENO	DAILY NUMBERS WIN 4
Prizes	40%	50%
Education	45%	35%
Administration	15%	15%

Aid to Education by County

COUNTY	DISTRIBUTION FY 1987-88	CUMULATIVE DISTRIBUTION FY 1977-88
Albany	\$ 7,674,539.45	\$ 42,861,434.02
Allegany	3,790,142.99	19,392,325.99
Broome	10,869,543.96	60,245,383.36
Cattaraugus	6,676,445.48	35,495,977.18
Cayuga	4,905,620.90	26,043,063.07
Chautauqua	8,885,743.41	46,592,922.71
Chemung	5,142,222.26	27,814,792.93
Chenango	4,505,244.42	23,112,547.75
Clinton	5,271,487.50	28,156,285.06
Columbia	2,843,701.56	14,639,289.33
Cortland	3,316,774.67	16,676,558.61
Delaware	2,591,692.84	12,903,408.86
Dutchess	10,814,057.21	60,848,874.31
Erie	43,263,028.05	240,679,491.20
Essex	1,195,627.57	6,459,469.68
Franklin	3,268,876.58	17,400,691.99
Fulton	3,700,654.85	19,655,617.98
Genesee	4,033,098.23	20,980,802.35
Greene	1,551,840.72	7,950,320.09
Hamilton	3,850.00	48,660.00
Herkimer	4,893,823.84	25,260,428.02
Jefferson	6,502,385.25	32,421,698.80
Lewis	1,965,585.46	10,476,447.11
Livingston	3,545,157.47	18,395,195.04
Madison	4,804,489.29	25,894,377.83
Monroe	28,729,368.19	154,363,282.62
Montgomery	3,192,727.10	16,211,335.11
Nassau	32,854,850.53	198,599,914.02
Niagara	11,563,807.34	64,381,101.68
New York City	274,102,358.66	1,311,654,475.37
Oneida	14,984,690.39	80,724,412.96
Onondaga	23,895,370.90	127,068,933.95
Ontario	5,394,493.79	28,129,190.30
Orange	18,073,062.30	89,863,450.03
Orleans	3,239,469.90	17,083,951.04
Oswego	8,538,776.50	42,925,303.36
Otsego	3,150,753.79	16,106,052.31
Putnam	3,236,451.10	19,327,189.01
Rensselaer	8,684,487.05	46,448,561.87
Rockland	8,399,073.49	51,380,542.94
Saratoga	11,317,952.96	59,909,838.49
Schenectady	6,278,688.84	33,322,152.48
Schoharie	1,901,446.21	9,764,190.41
Schuyler	1,162,216.68	5,938,982.83
Seneca	1,992,487.50	10,635,423.29
St. Lawrence	7,994,817.09	42,942,714.18
Steuben	7,734,390.75	40,131,249.40
Suffolk	76,849,199.38	432,267,535.34
Sullivan	2,181,054.28	10,051,096.78
Tioga	4,124,003.88	21,551,413.61
Tompkins	3,701,288.32	19,182,182.85
Ulster	6,342,597.30	34,964,907.73
Warren	2,876,243.46	15,416,305.90
Washington	4,485,337.82	23,791,445.80
Wayne	6,927,266.31	35,923,347.48
Westchester	11,932,543.03	82,714,385.00
Wyoming	2,289,654.30	11,648,466.92
Yates	830,127.71	4,432,675.33

NEW YORK LOTTO

LOTTO is New York's favorite game. The millionaire maker, it has produced the biggest prizes offered in New York and North American Lottery history.

LOTTO drawings are held on Wednesday and Saturday evenings and are televised on WPIX-TV, Channel 11 in New York City. In FY 87-88 players chose six numbers from a field one through 48.



Match the six numbers selected in the drawing and you may join the Lottery family of millionaires. There were nine jackpots of more than \$10 million each offered in 1987-88, including one worth \$20 million.

Jackpots grow each drawing in which no one picks all six numbers correctly. The jackpot money is then rolled over and added to the jackpot money pool for the next drawing.

Prizes in LOTTO are pari-mutuel, meaning they are determined by the amount earned from sales for the drawing as it is divided by the number of winners for the prize level. There are four prize levels in all, won by matching six, five, four or three and a supplementary (seventh) number. The supplementary number is used only to determine fourth prize winners.

LOTTO jackpot prizes are paid to winners over a period of years, currently twenty. It is the dream game with the dream prizes and there are 529 LOTTO millionaires whose dreams came true since the first drawing in November 1978.

Lottery Games

Fiscal Year 1987-88 marked some major Lottery accomplishments in the way it offered its varied games:

Another New Game Takes Hold

The New York Lottery, which pioneered the introduction of LOTTO to the North American continent, introduced yet another new game, KENO, to New York Lottery players. Fiscal 1987-88 saw Keno—introduced as Win 10—mature into a popular part of the New York Lottery game offerings. Keno offers a player eight ways to play and 17 ways to win. Players choose from three to ten numbers to try to match any of the 20 chosen in random nightly drawings from a field of 80.

Old Favorite Gains New Friends

The Instant Lottery game, long a staple among Lottery offerings and greeted by record sales when it returned New York to Lottery sales in September 1976, regained some of its vigor in Fiscal 1987-88, when changes in the game format stimulated impressive sales gains. The Instant game had fallen behind the more popular Lotto and Numbers game, but the Fiscal 1987-88 year saw noticeable improvement in its preference by players. A "Wheel of Fortune feature" gave way to a greater number of cash prizes, payable immediately to the winners. The public's acceptance of this new "cash flow" was reflected in an increase in the weekly average of Instant game sales—from \$1.2 million to about \$2.3 million.

Accelerated Prize Payments

An imperative to maintaining public confidence in the Lottery is the speed with which winners are able to collect their prizes. Prior to the summer of 1987, payment of Instant game prizes in excess of \$25 and prizes over \$600 in the "On-line" games, required a processing period of up to four weeks (except for Win-4 prizes) from the time of presentation of a prize claim to the delivery of the prize payment by mail to the winner. The new system introduced in Fiscal 1987-88 permits Regional Lottery offices to pay prizes for all games on the spot to winners of up to \$5,000. In addition to improved customer service, the new system represents major management improvements over the more limited regional payment system formerly used.

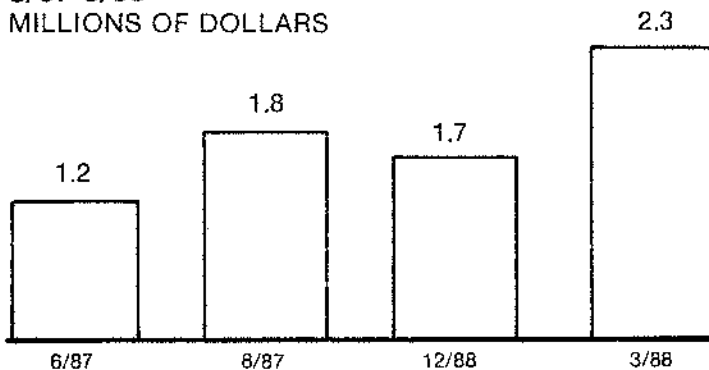
Surety for Ticket Sales

By the end of the fiscal year, New York's on-line Lottery games were being serviced by a first of its kind in the nation—parallel systems of on-line sales terminals and central computer systems to record sales and prize payments for New York's Numbers, Win-4, Keno, Lotto and Cash 40 games. The networks, unique to New York, provide additional assurance that its players will be able to buy their tickets even if natural or human accident should interrupt one of the on-line systems. The dual system provides New York with the best backup capability in the nation.

INSTANT GAME AVERAGE WEEKLY SALES

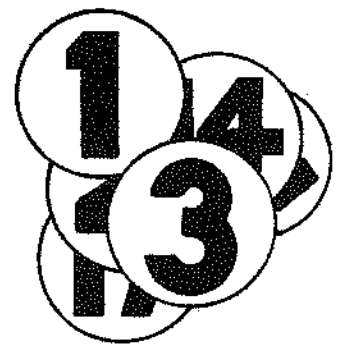
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MILLIONS OF DOLLARS



NEW YORK'S CASH 40

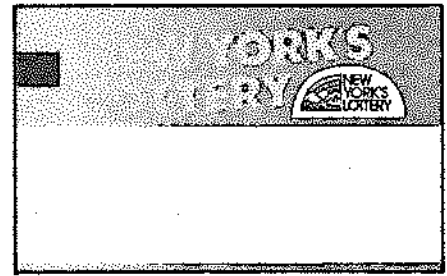
CASH 40 is a Lotto game in which players select six numbers from a field of one through 40.



In addition to the smaller field, CASH 40 differs from the big LOTTO game in one other important way. Its jackpots are paid in a single lump sum. The jackpot generally starts at about \$100,000 and, as in Lotto, can roll up when no one picks all six numbers perfectly in a drawing.

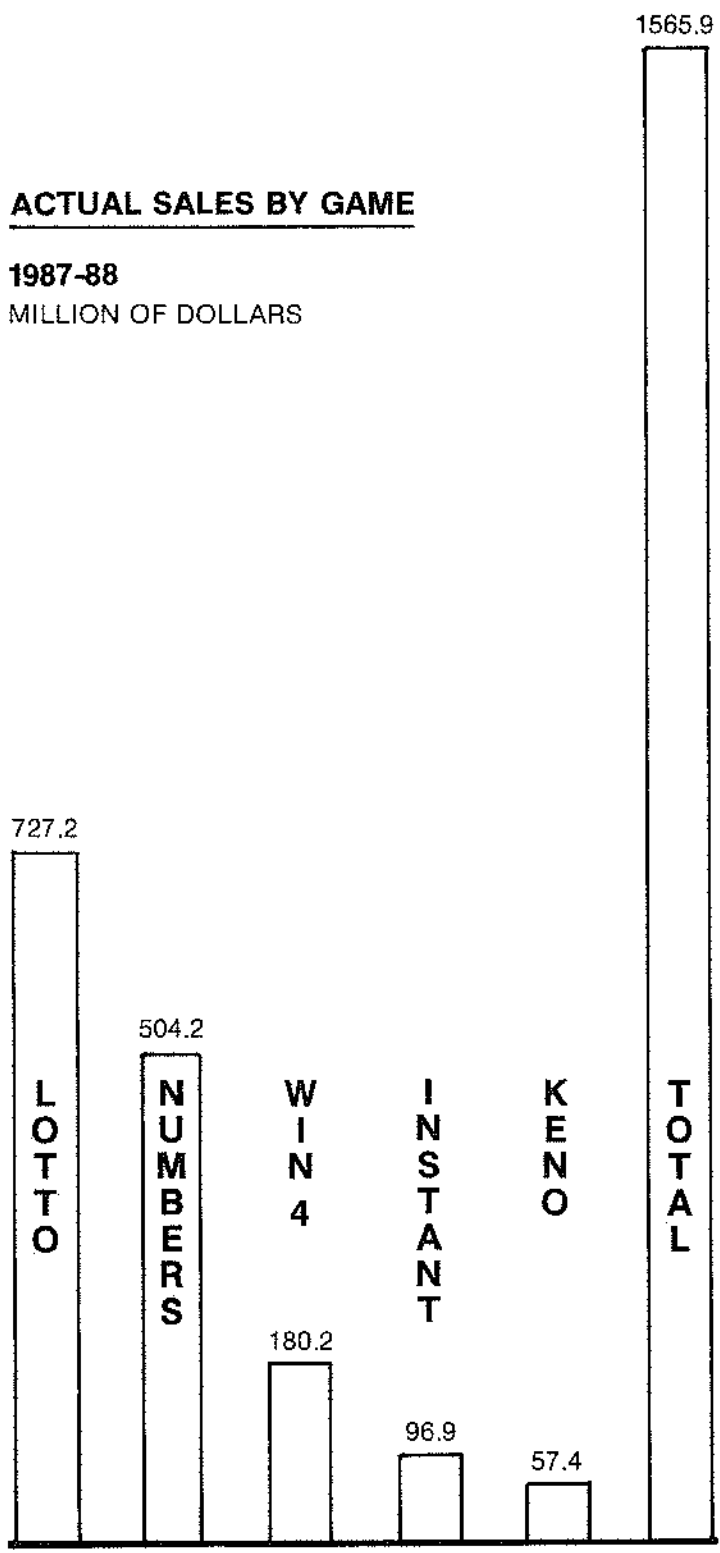
During 1987-88, two players won prizes of \$625,000 in separate drawings and received checks for one-half million dollars after tax withholding.

CASH 40 drawings are televised each Monday evening on WPIX-TV, Channel 11 in New York City. There are second and third prizes offered for matching five and four numbers.



ACTUAL SALES BY GAME

1987-88
MILLION OF DOLLARS

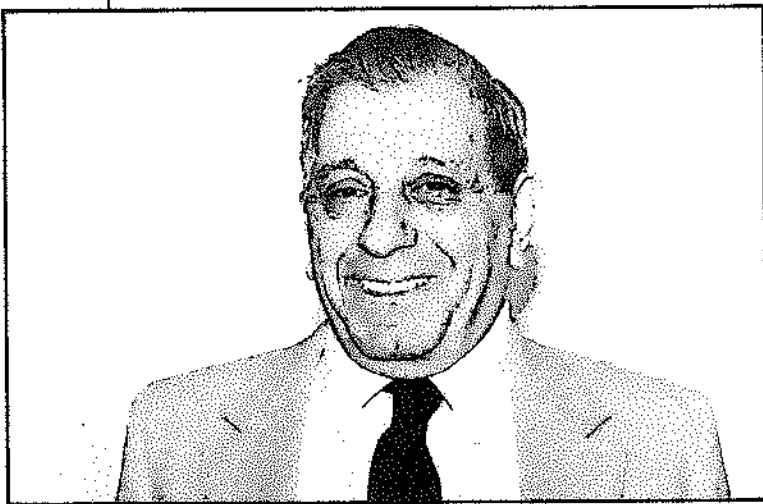


Prize Winners

Eighty-one persons became New York Lottery "millionaires" in Fiscal 1987-88, including a retired Brooklyn longshoreman who collected the richest single-payment Lottery prize in New York history.

New York's Lottery continued to lead the nation in "creating millionaires"—persons who have won a prize of a million dollars or more. As of March 31, 1988, New York had 587 such winners.

The three biggest LOTTO jackpots awarded in Fiscal Year 1987-88 were for \$20 million, \$16 million and \$15 million.



Vincent Cataldo, 71, of Brooklyn, matched all ten numbers in the Keno game drawing of February 28, 1988, to claim a \$1,981,000 jackpot and became the winner of the biggest-ever Lottery prize paid in New York State in a single payment.

Cataldo said he had been playing the Keno game for only two weeks when he won the record-setting jackpot.

The Keno jackpot began building on August 2, 1987, when it started at \$200,000, rising each week it was not hit.

Cataldo was the first of three men who hit the Keno jackpot in nine days.

He won \$1,981,000 on February 28;

Charles Henderson of Queens won \$200,000 on March 2, 1988; and

James Bigness of Syracuse won \$300,000 on March 7.

Winners collected prizes valued at more than \$803.5 million in Fiscal 1987-88.

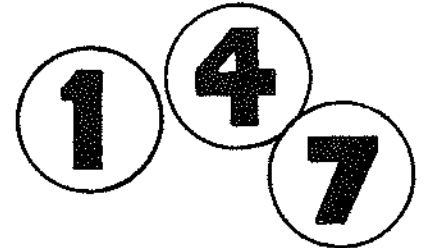
LOTTO paid the biggest share of the winnings—more than half the total. The value of prizes awarded by game in Fiscal Year 1987-88 were:

LOTTO/CASH 40	\$400,103,749
DAILY NUMBERS	255,062,536
WIN-4	82,292,612
INSTANT	46,793,593
KENO	19,252,024

The Lottery has paid prizes valued at more than \$4.68 billion since its first tickets went on sale in September 1976 to 285 million winners.

NEW YORK'S NUMBERS

The "numbers" game is a traditional favorite in the Eastern United States. Just pick a three-digit number and bet either that it will match the winning selections as they are chosen—a straight bet—or in a number of other combinations.



New York's legal Numbers lottery went on sale in September 1980. It has been a hit ever since.

In the "on-line" games, players make their Numbers purchases through agents equipped with terminals that register the bet and produce the ticket.

The Daily Numbers game has drawings every day, as the name implies. Drawings are televised each night on New York City's WPIX-TV which is also available on most local cable systems in the state.

Daily Numbers is one of two games in which a player may make a 50-cent purchase as well as a \$1. Prize levels are pre-set or fixed, according to the type of bet and range, from \$25 up to \$500, the latter for winning a \$1 straight bet.

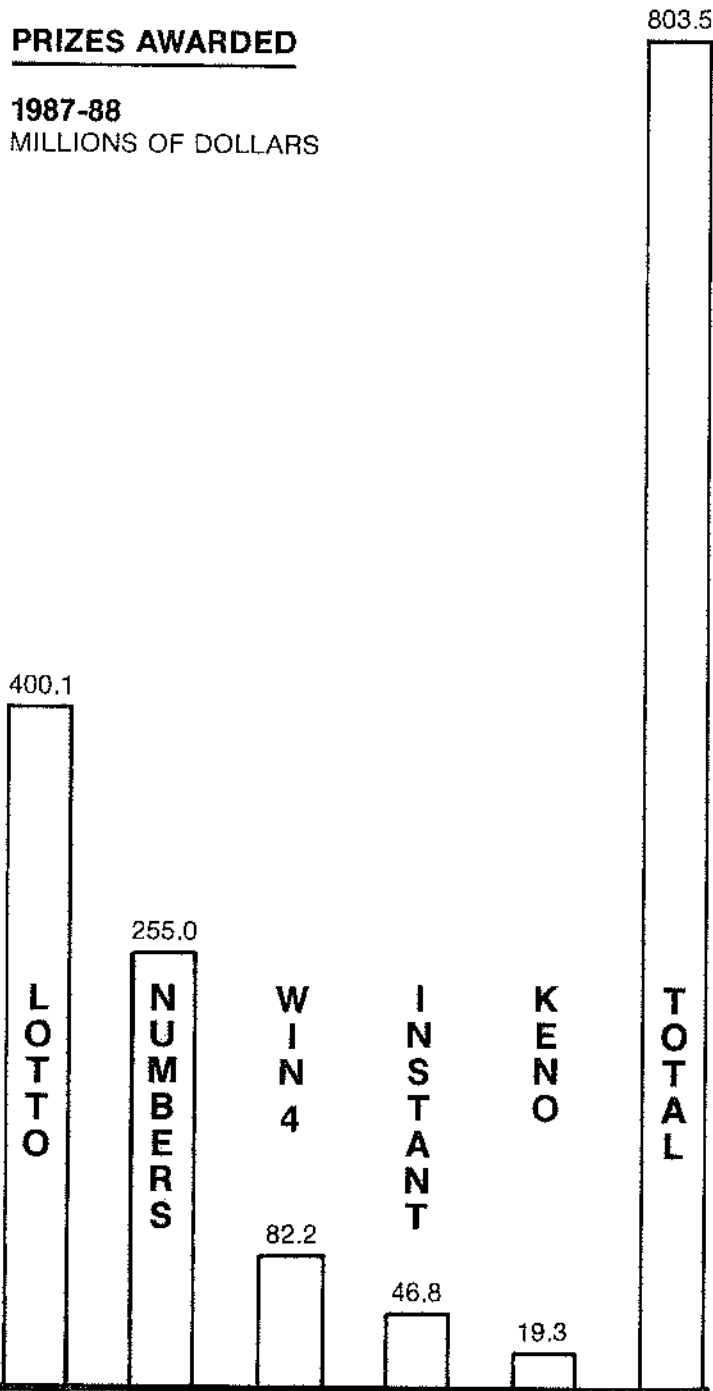
Since the payout will be the same for each winning wager no matter how much is spent on a drawing, the Lottery must cut off play on a number when the potential payout surpasses \$5 million.

Triple-digit numbers such as 555 or 777 are among the more popular numbers with players, as are significant or historic dates. The record payout for a DAILY NUMBERS payout occurred early in 1987-88 when the number 222 was drawn. It paid more than \$5 million in prizes to millions of winners.

PRIZES AWARDED

1987-88

MILLIONS OF DOLLARS



The Lottery is Good for Business

Fiscal Year 1987-88 was the best year ever in the amount of commissions earned for selling New York State Lottery tickets.

The more than 11,000 ticket agents, ranging in size from neighborhood "mom and pop" stores to the chain supermarkets, earned \$94 million in commissions in Fiscal Year 1987-88.

This brought to \$514.5 million in commissions ticket sellers have earned since they first went on sale in September 1976.

More than 5,500 agents had automated ticket terminals handling Lotto, Numbers, Win-4, Keno and Cash 40 and many of them earned \$60,000 and more over 12 months.

Food stores, newsstands and stationery stores top the list of Lottery ticket sellers.

From Fiscal Year 1976-77 through Fiscal Year 1987-88, the New York State Lottery had pumped more than \$767.6 million dollars into businesses big and small. And as a result the Lottery's success has been translated into the creation of hundreds of jobs in the private sector.

The benefits of the Lottery have been spread across the entire business spectrum, from the small neighborhood store selling Lottery tickets to the contractors providing the sophisticated technology for a vast network of automated terminals.

Fees and Commissions

September 1976-March 1988

Commissions to
Sales Agents \$514.5

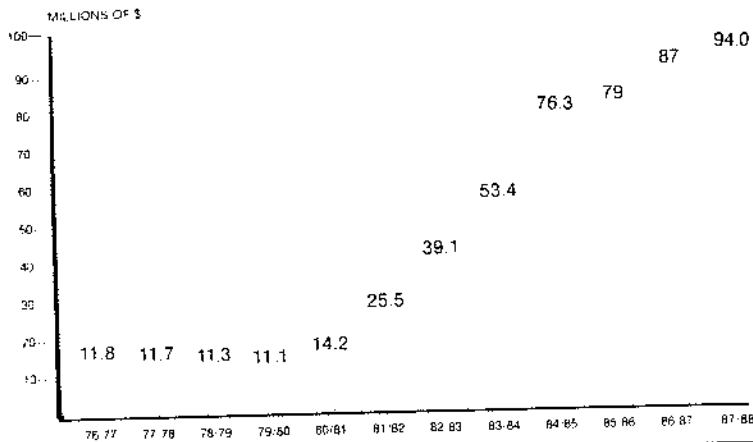
Contractor
Fees \$229.3

Distribution Fees
to Banks and Distributors \$23.8

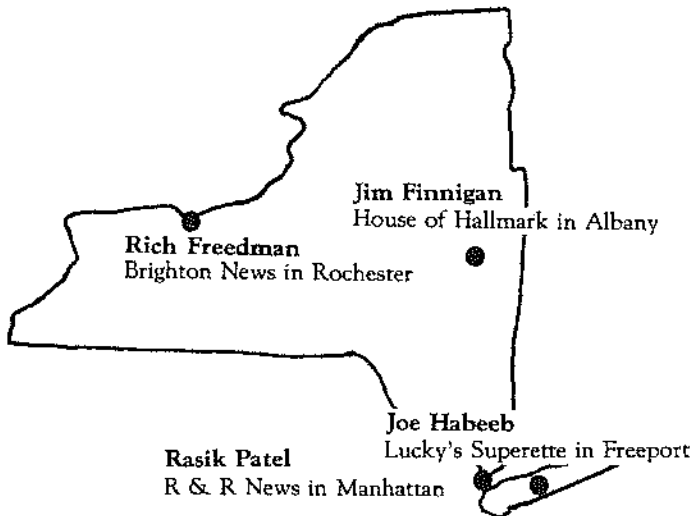
Electronic Collections Bring More Dollars

Collections of ticket sales returns averaging about \$30 million a week, once done by personal visits to more than 5,500 on-line agents, began to be done in Fiscal 1987-88 electronically. The new Electronic Fund Transfer System speeds the final accounting process and delivery of money settlements to the State by as much as a week. In the first full year of operation, interest earnings were increased by \$598,000. In addition, the Lottery's contractors and agents have also benefited. The contractors have realized improved cash flow, reduced bank charges, timely change of ownership information and reduced receivables. The agents have realized a time-saving convenience through elimination of check writing and ease of reconciliation of sales and prize payments.

Agent Commissions



TOP 1987-88 AGENTS



The Lottery's agents of the year are unanimous on one point—the Lottery is good business as well as good for business.

The agents—selected from the geographic regions served by the Lottery—were each tops in their area of the State.

AGENT TRIPS

It is good business to see that agents are well informed, well trained and provided with the incentive to make good Lottery business their business.

New York's Lottery believes in providing its agents vacation trips as incentives to good service and sales. These trips—provided through the Lottery's Advertising program and at no cost to the Lottery—were won by agents and enjoyed during vacation season this year.

TROPICAL DREAM

The most elaborate of the Instant game sales incentives offered the agent winner a grand prize of a trip to any one of eight resorts operated by the famed Club Med.

Winner of the grand prize was **Wesley John**, manager of the Cumberland Farms Store in Rensselaer. Mr. John chose the Mexican resort of Cancun on the Yucatan Peninsula.

VIVA ITALIA!

Winner of an all-expense paid trip for two to Italy was **William R. Fleming**, of Owl Drug Stores, Lottery agent in the Buffalo area.

BATTER UP!

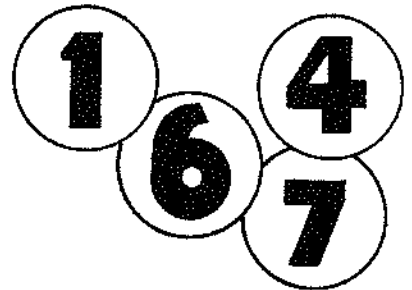
Every spring, the Lottery is able to send agents to the annual rite of spring training in the major leagues.

This year, **Tom Harris** of Tom's Restaurant in Rochester won a weekend in Fort Lauderdale, Florida with the New York Yankees.

Toney Yuen of Jeff Photo in Franklin Square, Long Island, watched the Mets prepare for their pennant drive.

WIN4

WIN-4 is the four-digit variation of the DAILY NUMBERS game. Also selected in a nightly drawing with the other New York Numbers, it involves wagering that you can match a four-digit number either straight or in a variety of combination possibilities.



It, too, offers both a 50-cent and one dollar bet. A year younger than the Numbers' game, it, too, is growing in popularity.

Ironically, the record WIN-4 payout also occurred during the year and involved all sevens. In August 1987, 7777 was drawn, paying its players \$5,125,000 in prizes. That payout represented 1,175 percent of the total sales for the drawing.



Answers to Questions Often Asked

Where does the Lottery money go?

By law, Lottery proceeds must go to help fund the State's financial assistance to local school districts. Since 1976 there have been two exceptions to this: The first was in 1976-77 when legislation directed that the Lottery proceeds (\$90.8 million) be used to help balance the State budget. And, from 1978-80, legislation directed that about \$4 million of the proceeds from the Olympic Lottery be distributed to the Winter Olympic Trust Fund for the benefit of winter sports education in New York. All the rest of revenue earned to date has gone, or will go, to local school districts in New York as part of the State aid they receive each year.

How much goes to the State from each game?

Not less than 45 percent of the revenue from the LOTTO, CASH 40, Instant and KENO games must go to the State for education. From the DAILY NUMBERS and WIN-4, 35 percent.

How much goes to prizes?

Prizes in KENO, LOTTO, Instant and CASH 40 are limited to not more than 40 percent, and not more than 50 percent in DAILY NUMBERS and WIN-4.

If the Lottery is *earning* so much money for education, and it's really going there, how come my taxes keep going up?

Lottery revenues indeed help support education in New York State. Lottery revenues help fund the State's financial assistance to local school districts.

But keep in mind that Lottery aid is not in addition to, but rather, part of the State money used to help local school districts. It has risen from about three cents of every State aid dollar to about ten cents of every State aid dollar to local schools.

Why are big prizes paid over 20 years?

The law gives the Lottery Director the authority to determine how prizes are paid. We have chosen to pay them over several years (usually 20) because:

- It enables the Lottery to pay large prizes. Part of the money received over a 20-year period by a winner represents interest earned on that investment as well as the original principal available for the prize. For example, on March 12, 1988, a New Yorker won \$3 million. The winner received an initial payment of \$142,800 less Federal withholding and will receive 20 annual payments of \$142,860 over the next 20 years. Without the interest earnings, the prize would have been \$1,600,000.

- Most winners of large Lottery prizes have not handled sums of money like one million dollars or more. By paying over time, they have an opportunity to plan and use the money more effectively.

If I die before the 20 years are up,
who gets the money?

In such cases, payment is made to the
estate of the winner. The State does not
get the unpaid balance.

Does Lottery prize money earn interest
pending payment of the prizes to the
winners?

Yes. There are several categories of
accounts for prize funds (Numbers
Reserve Fund, Lotto Reserve Fund,
Special Prize Fund) and all are interest-
bearing accounts. Interest received on
prize payment funds is ultimately used by the
Lottery for payment of additional prizes.

What about unclaimed prizes?

By law, winners have one year to claim
their prizes. After one year any un-
claimed prize money reverts to the State.
From September 1976 to March 1988
that has amounted to over
\$87.6 million.

There are more small prizes in your
INSTANT Game. Why?

Players prefer it that way. In June 1987
the game was redesigned as a completely
INSTANT game to create more winners.

This is a result of replacing big prizes
with many smaller prizes. Players tell us
they like our new INSTANT game by buying
almost twice as many tickets.

NEW YORK'S KENO

KENO is the Lottery's newest game
but it has already scored some
remarkable records.

During the year, KENO paid the
biggest single lump-sum prize
payment in New York Lottery history
to one of its jackpot winners. The
prize—a one-time payment of more
than \$1.98 million.

In KENO, introduced as WIN-10 in
January 1987, a player can wager
that he or she can correctly pick
from three to ten numbers from a
field of one through eighty.

The Lottery selects twenty
numbers from the field in nightly
drawings against which the player
checks his or her wagers.

KENO gives the player the chance
to choose the way he or she wants to
play and the odds that will be faced.
There are eight ways to play—from a
three to a ten-number pick—but
there are 17 ways to win with
alternate prizes offered from a pick-
six wager through the pick-ten.



All prizes are fixed amounts except
the jackpot, which is shared equally
if there is more than one winner.
KENO jackpots were set at \$200,000
when the game was first introduced,
but during the 1987-88 fiscal period,
progressive jackpots were
introduced. The prize currently
grows each week it is not hit by an
amount determined by sales and the
availability of prize reserve funds.

Auditors' Report

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
 Deloitte, Haskins & Sells
 July 22, 1988

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)		15,499	13,302
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	623,785	500,989
		<u>710,001</u>	<u>585,507</u>
Education:			
Allocation of accrued revenue		11,411	15,034
Allocation of cash revenue payable (overpaid)	10	(2,106)	13,076
		<u>9,305</u>	<u>28,110</u>
Administration:			
Allocation of accrued revenue		1,374	2,321
Allocation of cash revenue payable	10	19,345	4,016
		<u>20,719</u>	<u>6,337</u>
Other payables		2,428	2,287
TOTAL		<u>\$742,453</u>	<u>\$622,241</u>

Statements of Revenue and Revenue Allocations
for the years ended March 31, 1988 and 1987
(In Thousands)

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

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:

(In Thousands)

	9/8/76 to 3/31/87	4/1/87 to 3/31/88	9/8/76 to 3/31/88
<i>Revenue:</i>			
Instant game 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 games sales	29,377	57,369	86,746
Other games sales	93,168		93,168
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	2,815	476	3,291
Total revenue	<u>\$7,166,367</u>	<u>\$1,632,008</u>	<u>\$8,798,375</u>
<i>Revenue Allocated to Prizes:</i>			
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%)	37,267		37,267
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	(1,828)		(1,828)
Total revenue allocated to prizes	<u>3,103,285</u>	<u>734,983</u>	<u>3,838,268</u>
Lottery prizes paid	(2,517,778)	(610,489)	(3,128,267)
Balance	585,507	124,494	710,001
Current year accrual (included above)	(5,599)	(3,436)	(3,436)
Prior year accrual	—	5,599	—
Prizes to be paid	<u>\$ 579,908</u>	<u>\$ 126,657</u>	<u>\$ 706,565</u>

	9/8/76 to 3/31/87	4/1/87 to 3/31/88	9/8/76 to 3/31/88
	(In Thousands)		
Allocation of prizes to be paid:			
Unclaimed and future prizes	\$ 78,919	\$ 3,861	\$ 82,780
Long-term prize obligations	500,989	122,796	623,785
	<u>\$ 579,908</u>	<u>\$126,657</u>	<u>\$ 706,565</u>
<i>Revenue Allocated to Education:</i>			
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%)	41,926	—	41,926
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	32	—	32
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	—	15,034	—
	<u>\$ 13,076</u>	<u>\$ (15,182)</u>	<u>\$ (2,106)</u>
<i>Revenue Allocated to Administration:</i>			
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%)	13,975	—	13,975
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 commissions 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	—	2,321	—
	<u>\$ 4,016</u>	<u>\$ 15,329</u>	<u>\$ 19,345</u>
(See notes to financial statements)*			

*The complete notes on the financial statements are on file at the New York State Lottery Offices in Albany and are available for public inspection.

