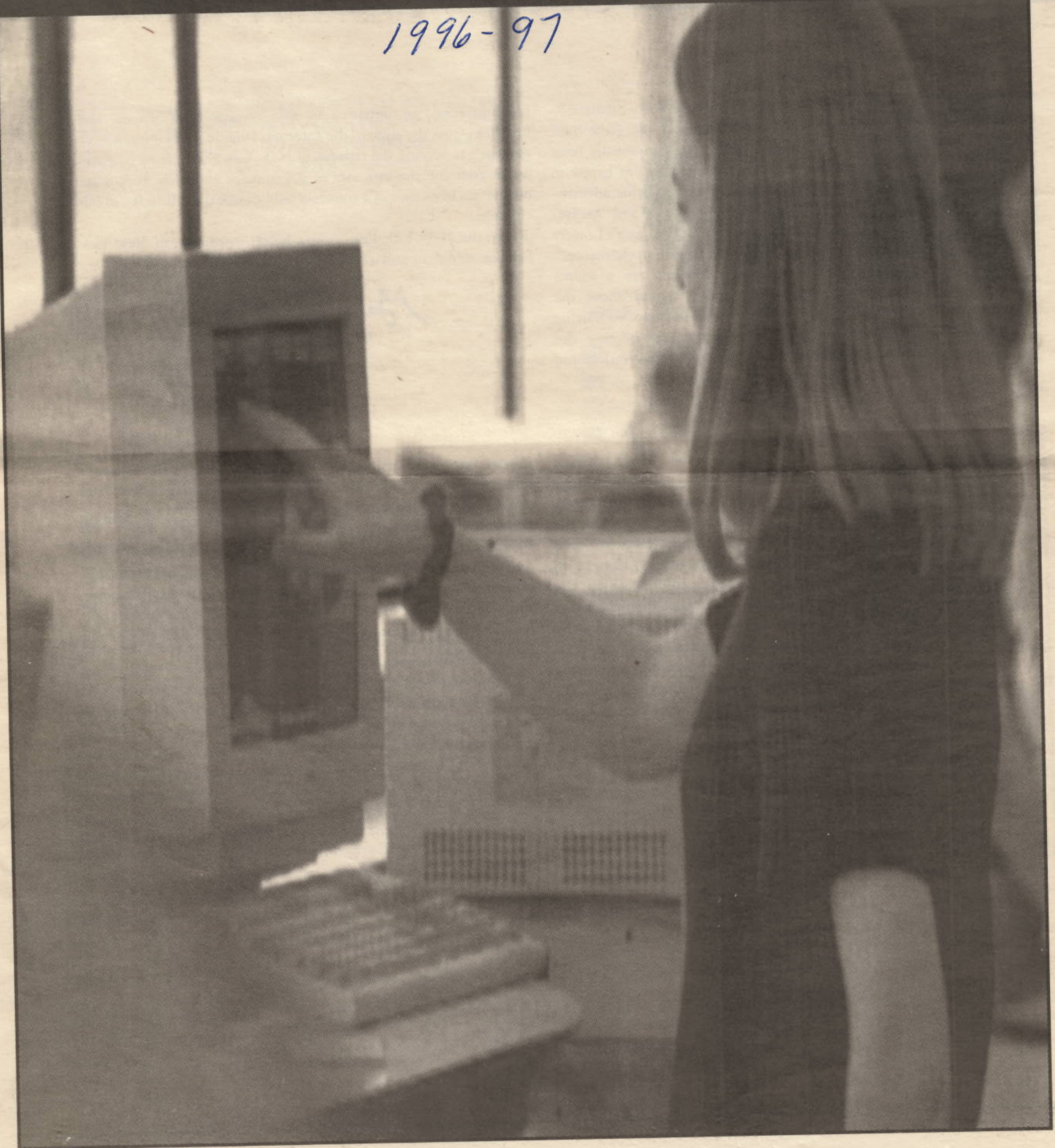




**THE NEW YORK LOTTERY.
AN ANNUAL REPORT.**

1996-97



MESSAGES FROM GOVERNOR PATAKI AND LOTTERY DIRECTOR JEFF PERLEE



Governor Pataki

The last few years have seen dramatic—and positive—changes at the New York Lottery. Our Lottery has traditionally been a leader in sales, but today I'm happy to report that with more responsible advertising, tougher enforcement and greater emphasis on education, New York's Lottery is setting a new standard for performance. While these achievements are a source of pride, I am most excited about the Lottery's future. In addition to raising billions of dollars for education, the Lottery has become the primary sponsor of the Empire State Games and New York Wired

for Education, an initiative to wire thousands of schools and libraries across the state to the Internet. Unique in their innovative approach to serving the citizens of New York State, these two programs combine the interests of government and New York State businesses in pursuit of a common public goal: the education of our children.

Today, the New York Lottery is a better institution of New York State government and a better neighbor to all of us.

George E. Pataki



Jeff Perlee

As New Yorkers, the terms "first," "biggest" and "best" have a familiar ring to all of us. This year, the New York Lottery achieved \$4 billion in sales, making us the first lottery in the United States to reach this milestone. These results, along with the more than \$1.5 billion which the Lottery earned for school districts across the state, make the New York Lottery the biggest in North America. We achieved these results while at the same time substantially reforming Lottery operations, including toning down aggressive advertising, cracking down on illegal sales to

minors, improving customer service and emphasizing the Lottery's mission to support education. These accomplishments allow us to state, with confidence, that as New Yorkers we have the biggest, best and most responsible lottery in the nation.

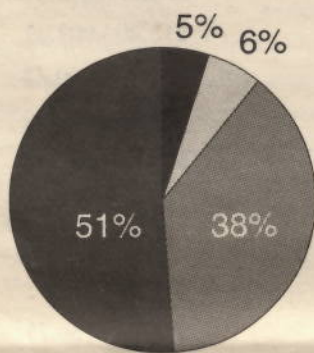
Please take a moment to review our 1996-97 Annual Report. It will provide you and all New York taxpayers with financial results and other important information about the New York Lottery. The men and women of the New York Lottery are proud of our success and proud of the opportunity to serve the people and schools of the Empire State.

Jeff Perlee



WHERE DOES THE MONEY GO?

The Lottery benefits New York's elementary and secondary public schools by contributing 100% of its profits to New York State Aid to Education. Last year, the Lottery's contribution totaled \$1.5 billion. No lottery in any state has ever contributed more to education or any other cause.

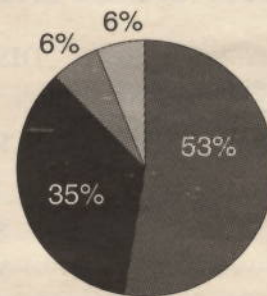


Where Lottery Sales Go

- \$2 billion, paid to Winners in the form of prizes
- \$1.5 billion, paid to State Aid to Education
- \$240 million, paid to Retailers (commission)
- \$184 million, Administrative costs

Given the Lottery's tremendous success in raising funds for public schools, it is not surprising that many New Yorkers wonder why their property taxes keep going up, or why they must continue to pay property taxes at all. It is true that \$1.5 billion can go a long way. That is enough money to pay 10,000 teachers for a year, to heat every classroom for a year, to buy 20 million textbooks, and still have \$200 million left over for field trips, volleyballs, computers, nurses, chalk, diplomas and so on.

But the Lottery's contribution represents only 6% of the \$25 billion it takes to fully fund elementary and secondary public education in New York. Education is expensive and the main funding source is local taxes. The best the Lottery can do is help ease this burden.



Where Schools Get Their Money

- \$13,169,924,000—Local Property Taxes*
- \$1,569,259,000—Federal Aid*
- \$1,542,757,000—New York Lottery
- \$8,646,099,000—State Aid to Education

The Lottery's success over the years has caused our public officials to come to rely on the Lottery's contribution to State Aid to Education, and Lottery funds are made a part of the overall education budget. Unfortunately, that means that the Lottery contribution does not represent extra or supplemental funds for schools. If the Lottery has a particularly good year, it does not mean that schools get more money.

The Lottery's contribution does mean, however, that New Yorkers had to contribute \$1.5 billion less in income, sales and property taxes than they would have if the Lottery did not exist. We think that is a good deal for all New Yorkers.

* For fiscal year ending 6/30/96.



HOW MUCH DOES YOUR COUNTY GET?

NEW YORK LOTTERY 1996/1997 COUNTY DISTRIBUTION

COUNTY	DISTRIBUTION 1996-97	COUNTY	DISTRIBUTION 1996-97
Albany	\$17,073,134.47	Oneida	\$31,199,819.75
Allegany	\$8,564,238.57	Onondaga	\$55,271,215.49
Broome	\$25,144,114.82	Ontario	\$12,403,901.47
Cattaraugus	\$16,087,020.27	Orange	\$37,765,900.45
Cayuga	\$10,950,047.13	Orleans	\$7,739,562.82
Chautauqua	\$22,071,157.27	Oswego	\$18,558,204.26
Chemung	\$13,040,000.00	Otsego	\$7,708,115.11
Chenango	\$9,465,558.80	Putnam	\$5,033,871.38
Clinton	\$11,639,878.51	Rensselaer	\$16,550,066.62
Columbia	\$4,776,171.19	Rockland	\$11,046,186.71
Cortland	\$7,268,597.64	Saratoga	\$22,322,978.96
Delaware	\$5,536,659.29	Schenectady	\$13,201,843.18
Dutchess	\$19,992,609.49	Schoharie	\$4,131,204.38
Erie	\$96,523,903.30	Schuyler	\$2,318,686.82
Essex	\$2,022,101.32	Seneca	\$4,266,226.09
Franklin	\$7,496,412.21	St. Lawrence	\$17,734,014.18
Fulton	\$8,355,198.92	Steuben	\$16,980,384.97
Genesee	\$9,423,983.63	Suffolk	\$110,393,679.22
Greene	\$3,560,509.83	Sullivan	\$5,522,034.36
Hamilton	\$11,310.00	Tioga	\$9,130,000.00
Herkimer	\$10,493,188.73	Tompkins	\$8,192,135.28
Jefferson	\$16,593,090.93	Ulster	\$13,087,647.99
Lewis	\$4,703,578.59	Warren	\$5,995,230.41
Livingston	\$8,657,617.67	Washington	\$8,946,597.11
Madison	\$10,210,637.52	Wayne	\$15,264,837.12
Monroe	\$77,353,336.27	Westchester	\$26,349,522.66
Montgomery	\$7,190,383.33	Wyoming	\$5,485,093.99
Nassau	\$50,861,481.51	Yates	\$1,994,145.18
Niagara	\$27,627,955.00		
New York City	\$612,000,000.00		
(includes Bronx, Queens, Kings, New York and Richmond counties)			



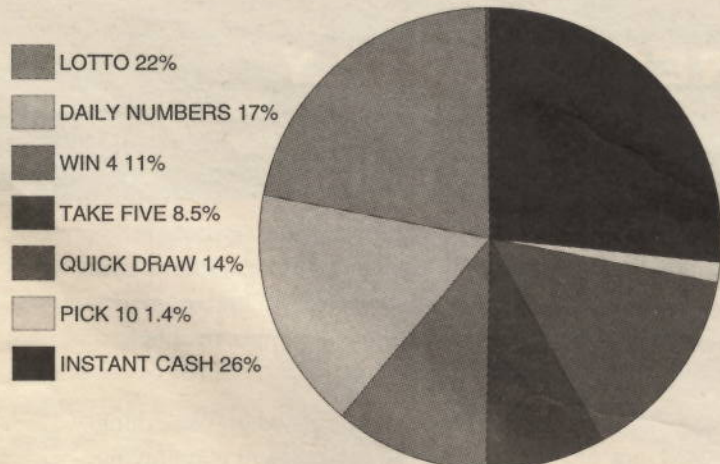
WHAT KIND OF GAMES DOES THE LOTTERY OFFER?

The Lottery offers a wide variety of games, featuring several styles of play, prize levels and drawing frequencies.

Several Lottery games, including Lotto, Take Five and the Instant Cash Game line of products, generally feature long odds and wide participation, and appeal to a very broad customer base. These products are advertised on radio and television in order to generate product awareness, as well as to launch new games into the product mix. The Lottery's role, with regard to these games, is to market and promote them, and it is through these games that the bulk of the revenue the Lottery generates for State Aid to Education is derived. These games fall under the supervision of the Lottery's Sales and Marketing Bureau.

Other Lottery products, including the Daily Numbers, Win 4 and Quick Draw games, feature shorter odds, more limited participation and more frequent drawings. The Lottery views its role with regard to these games as regulator, not primarily as promoter, and thus allocates no portion of its media budget to promoting these games. These games generate less revenue to support State Aid to Education than do the Lottery's wider-participation games, and fall under the supervision and control of the Lottery's Regulation and Compliance Bureau.

SALES BREAKDOWN FOR THE FISCAL YEAR ENDED 3/31/97



NEW YORK LOTTO

Lotto is the multimillion-dollar jackpot game where players select six numbers from a field of one through 54. To win the jackpot, players must match all six randomly drawn numbers. Prizes are also awarded for matching five numbers, four numbers and three numbers plus the supplementary number. Lotto drawings are held twice weekly, on Wednesday and Saturday. New in 1996 was the redesigned Lotto prize structure which allows the jackpot to roll-up faster and more frequently, reaching the \$10 million level after just the first jackpot roll-up. In addition, the redesigned Lotto game now offers players an option to receive their winnings in one lump sum rather than in the form of annual installments. This initiative has been tremendously popular with Lotto players with approximately 70% opting to take the lump sum. Lotto is currently generating approximately 15% more sales than before and just recently enjoyed a \$70 million jackpot roll-up.

TAKE FIVE

Take Five is a lotto-type pari-mutuel game introduced to complement Lotto. Players choose five numbers from a field of one through 39. Cash prizes are awarded for matching five, four and three numbers, and a bonus "Free Play" ticket for matching just two numbers. With overall odds of 1 in 8.77, Take Five creates hundreds of thousands of winners for each drawing. Take Five drawings just recently expanded from 2 to 4 drawings weekly on Mondays, Tuesdays, Thursdays and Fridays, resulting in a sales increase of about 35% over base.



Quick Draw offers players a game every five minutes for a chance to win up to \$100,000. Players pick up to 10 numbers from a field of one through 80, trying to match 20 numbers broadcast on a television monitor and randomly drawn by the Lottery.

NUMBERS

Players who enjoy the excitement of Lottery games on a daily basis play one of the two numbers-type games. New York Numbers, in which a three-digit number is drawn, awards prizes ranging from \$25 to \$500.

WIN 4

Win 4, in which a four-digit number is drawn, awards prizes from \$100 to \$5,000. Both New York Numbers and Win 4 drawings are televised consecutively each evening.

PICK 10

Another daily game, Pick 10, offers a top prize of a half-million dollars in cash. Players choose 10 numbers from a field of one through 80. The Lottery draws 20 numbers nightly. Winners receive prizes for matching ten, nine, eight, seven, six, even zero of the numbers drawn.



New Yorkers who want instant results play Instant Cash Games. Players rub off a latex coating on the tickets to see if they have won prizes which range from \$1 to millions, depending on the game. During the fiscal year 1996-97, players had a choice of 28 different games to choose from, 19 of which were brand new games introduced during the year. At any given time, up to 18 different play styles, graphics and prize structures could be purchased at some 16,000 licensed retail Lottery outlets throughout the state.

Win For Life offers players a top prize of \$1,000 a week for life with a guarantee of receiving at least \$1 million. Fifty New Yorkers have won the top prize in Win For Life to date — \$1,000 a week for life.



Bingo is an extended play Instant Cash Game that simulates traditional bingo by matching "caller card" numbers to those on four "player cards." Winners on this \$2 ticket can receive prizes up to \$10,000.



Tax-Free Million is a game like no other from the New York Lottery. That's because when a player wins the top prize on this \$2 ticket, they get exactly \$1 million to take to the bank.



NY Wired is the game where you can win up to \$50,000 or a chance to win cash prizes on our new "NY Wired" television show starting this fall. Each NY Wired ticket gives you 2 different games with 6 chances to win up to \$50,000 instantly!



©1997 New York Lottery. You must be 18 or older to play Lottery games.



PLEASE PLAY RESPONSIBLY

New Yorkers all over the state enjoy the Lottery. Last year, 75% of adult New Yorkers played our games at one time or another. And the vast majority played responsibly. Nevertheless, lottery games are still a form of gambling, and can be abused.

The New York Lottery is among the most proactive lotteries in the country in addressing the issue of problem gambling, and continues to build on its past efforts in this area. The Lottery offers the New York Council on Problem Gambling's toll-free helpline number on the back of every Lottery game brochure and play slip (1-800-437-1611). The Lottery is also working with the Council to develop problem gambling awareness and training services, to be available to all Lottery employees and agents. In the future, this training will help Lottery employees and sales

agents identify problem gamblers, and assist them in seeking treatment. The New York Lottery also has game restrictions and safeguards no other state has, as well as one of the lowest prize payouts of any lottery in the nation. All of these measures help reduce the incidence of problem gambling.

At the Lottery we believe that nobody benefits when something good is abused, not the Lottery, not the players, and certainly not the people of New York. We encourage players to keep things in perspective. The Lottery is no substitute for hard work and education; it is not a retirement plan; it is not an insurance policy and not a good investment. The Lottery is just a game for a good cause. And when New Yorkers play in moderation, we all win.



LOTTERY WINNERS

200 MILLION WINNERS ALL OVER THE STATE

They come from every part of the state. From big towns, from small towns, from the boroughs. And they all have one thing in common. They're all Lottery winners. Last year, more than \$2.04 billion was won by over 203 million holders of winning tickets. And the Lottery's "Millionaires Club" added 114 new members, bringing the total number of millionaires created in the 30 years of the Lottery to 1,281. This year, 20 of 1996-97's millionaires earned their place in the club by winning the top prize in the Instant Cash Game Win For Life, which pays \$1,000 a week for life and guarantees at least \$1 million. Four new millionaires were also added to the club for winning the top prize in Tax-Free Million.



This is Angel Sanchez of Brooklyn, New York, who won Lotto for \$15 million on November 27, 1996. Said Angel, "I knew someday I would win. This is a dream come true." Angel chose to receive his winnings in one lump sum payment.

The first Golden Egg winner is Dixie Moustakas of Poughkeepsie, New York. Dixie will receive \$1 million to be paid in annual payments of \$100,000 for the next ten years. Dixie's plans for the money: she will give some of

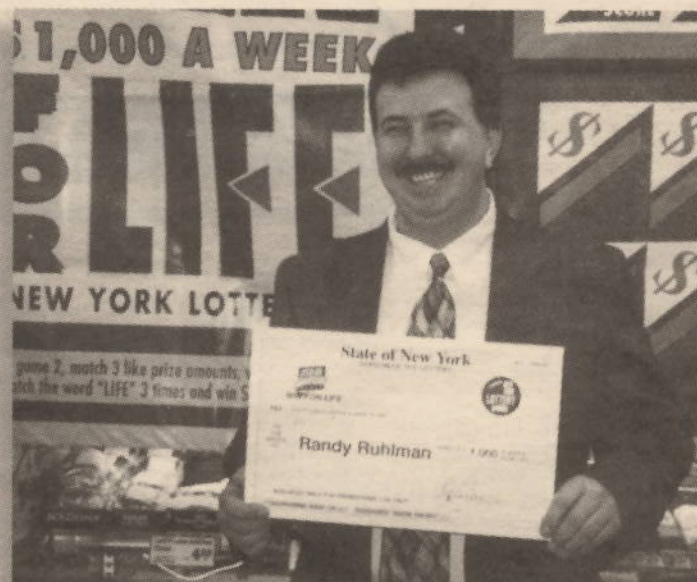


her winnings to the church, set aside some money for her grandchildren's education and buy a new car.



Stephen Dade (left) of Middletown, New York, was the 41st winner of \$1,000 a week for life. "It didn't seem real," said Stephen. "After I found out that I had won, I told my wife she could quit her job. I just couldn't believe that I had won Win For Life."

The 42nd winner of \$1,000 a week for life is Randy Ruhlman of Rochester, New York. Randy plans to use his winnings to help pay for his daughter's education. He is guaranteed at least \$1 million.





WHAT'S NEW AT THE NEW YORK LOTTERY?

NEW YORK WIRED

New York Wired is a program dedicated to wiring schools and libraries across the state for Internet access and to prepare New York's schoolchildren with the technological tools and skills they will need to compete in the 21st century. New York Wired has evolved into several unique programs, each designed to benefit schoolchildren throughout the state. Listed below is information about each program.

NEW YORK WIRED SCHOLARS

New York Wired Scholars is a unique program developed by the New York Lottery in conjunction with the University at Albany and the State Office of Parks, Recreation and Historic Preservation. The goal of the program is to bring the diverse assets and attractions of the State of New York into the classrooms of all New York schoolchildren through the magic of television. Throughout the year, ten accomplished high school sophomores will participate in a year-long "field trip" exploring every corner of New York State as a living classroom. And their discoveries will be filmed by a video crew. One month may find our scholars in Ticonderoga experiencing colonial history. Another month might find them on Long Island Sound exploring marine ecosystems, or on Wall Street absorbing the energy of the financial markets. These segments will be aired on a monthly television show to be broadcast statewide on PBS and may be used as part of the history curriculum for 7th and 8th graders across New York State.

INTERNET WIRING

In 1996, the New York Lottery, together with a unique coalition of business and government, sponsored the New York Wired for Education Internet program. This program provided schools all across the state with the necessary materials and volunteers to install equipment for Internet access. All told, in one historic day, over 3,000 schools and libraries across the state were wired for access to the Internet. Governor Pataki volunteered and donned a hard hat and work clothes to help wire his old elementary school in Peekskill, New York. The volunteer work force and the donated and discounted hardwiring and equipment enabled thousands of schools and libraries to be wired at a cost savings of over \$20 million. Thanks to corporate sponsors, such as IBM, NYNEX, Ni-Mo, AT&T and the New York Lottery, New York Wired for Education '96 was a huge success. New York Wired for Education continues to wire additional schools and libraries across the state for access to the Internet. This year, the Lottery launched a sponsorship promotion which allowed local Lottery agents to sponsor a school or library in their neighborhood. The Lottery agent's sponsorship was matched, dollar for dollar, by the Lottery, enabling the local school or library to purchase a discounted hardwiring kit from New York Wired for Education. Two thousand five hundred (2,500) Lottery agents participated in this sponsorship opportunity, resulting in thousands of additional schools being wired for access to the Internet. Discounted hardwiring kits continue to be available from New York Wired for Education for any school or library in the state that wishes to participate in the program.



NY WIRED TV

NY Wired TV is the New York Lottery's new half-hour weekly television show that's scheduled for launch in every television market in New York State on October 4, 1997. Sponsored by the Lottery, NY Wired TV gives Lottery agents a chance to win prizes on behalf of audience members and their hometown communities. Lottery agents won't win money for themselves but will win for New York Wired for Education computer technology packages for a local school in their school district or the New York Wired Scholars program. Lottery agents who participated in the New York Wired for Education sponsorship promotion are eligible to appear and participate on the TV show. Throughout the show, viewers will visit winning schools to see how they have benefitted from their New York Wired Scholars and New York Wired for Education prizes. In addition to Lottery agents winning money to help their communities, viewers at home can also win money or a chance to appear and win money on the TV show, via the NY Wired Instant Cash Game. On sale since mid-August, the NY Wired Instant Cash Game features a top prize of \$50,000 and is one of the Lottery's highest prized Instant Cash Games. Non-winning NY Wired game tickets can be mailed in for a chance to be selected as a member of the studio audience on the NY Wired TV show, and to share in the prize money given away on the show. NY Wired TV is a show where everyone truly wins: New York schools, Lottery agents, Lottery players and everyone in the State of New York.

NEW YORK WIRED EDUCATIONAL SOLUTIONS CENTER

The New York Wired Educational Solutions Center is a newly developed program of New York Wired and the New York State Department of Education. Designed to help teachers learn about the educational opportunities available through the Internet and technology-driven classrooms, the New York Wired Educational Solutions Center presents a series of model "wired" classrooms, and all of the educational programs and packages that can be conducted through them. New York Wired will assemble the model technology packages, including personal computers, network servers, modems and Internet links and educational software packages, designed for school district budgets of every size. Department of Education-sanctioned educational programs and packages will be developed for each of the model classrooms to educate teachers about what technology tools can do to improve the classroom learning experience. The New York Wired Educational Solutions Center will provide teachers with the tools and information they need to open up the information superhighway to New York's inquisitive young minds, and help these teachers replicate the model classrooms in their own schools.





REVENUES AND EXPENSES

YEARS ENDED MARCH 31, 1997 AND 1996 (IN THOUSANDS)

	1997	1996
Revenue:		
Ticket sales	\$3,992,314	\$3,610,638
Interest income	140,791	134,980
Other income	3,182	6,378
Total Revenue	<u>4,136,287</u>	<u>3,751,996</u>
Expenses:		
Prizes	2,026,162	1,826,657
Agent commissions	240,326	216,638
Contractor fees	96,783	86,136
Instant Cash Game ticket printing	11,012	12,609
General and administrative expenses	87,437	82,797
Interest expense	131,810	127,578
Total expense	<u>2,593,530</u>	<u>2,352,415</u>
Net income and required allocation to education	<u>\$1,542,757</u>	<u>\$1,399,581</u>

The New York Lottery's financial statements are audited by the firm KPMG Peat Marwick, LLP.

If you would like a complete copy of the Lottery's official audited financial statements, please write to the address listed on the back of this report.



ASSETS AND LIABILITIES

YEARS ENDED MARCH 31, 1997 AND 1996 (IN THOUSANDS)

ASSETS	1997	1996
Current assets:		
Cash and cash equivalents	\$155,189	\$137,134
Accounts receivable	169,403	115,813
Investments, at amortized cost	194,953	189,314
Instant Cash Game ticket inventory	3,760	5,674
Total current assets	<u>523,305</u>	<u>447,935</u>
Long-term investments, at amortized cost	1,448,673	1,433,240
Equipment and leasehold improvements, net of accumulated depreciation and amortization	<u>3,261</u>	<u>4,169</u>
Total assets	<u>\$1,975,239</u>	<u>\$1,885,344</u>
LIABILITIES		
Current liabilities:		
Prizes payable	\$195,063	\$189,661
Unclaimed and future prizes	197,331	154,064
Due to education	75,720	66,146
Due to administration	13,018	5,657
Deferred revenue	10,910	9,422
Other payables	<u>15,802</u>	<u>9,493</u>
Total current liabilities	507,844	434,443
Long-term prizes payable	1,467,395	1,450,901
Commitments and contingencies	—	—
Total liabilities	<u>\$1,975,239</u>	<u>\$1,885,344</u>

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