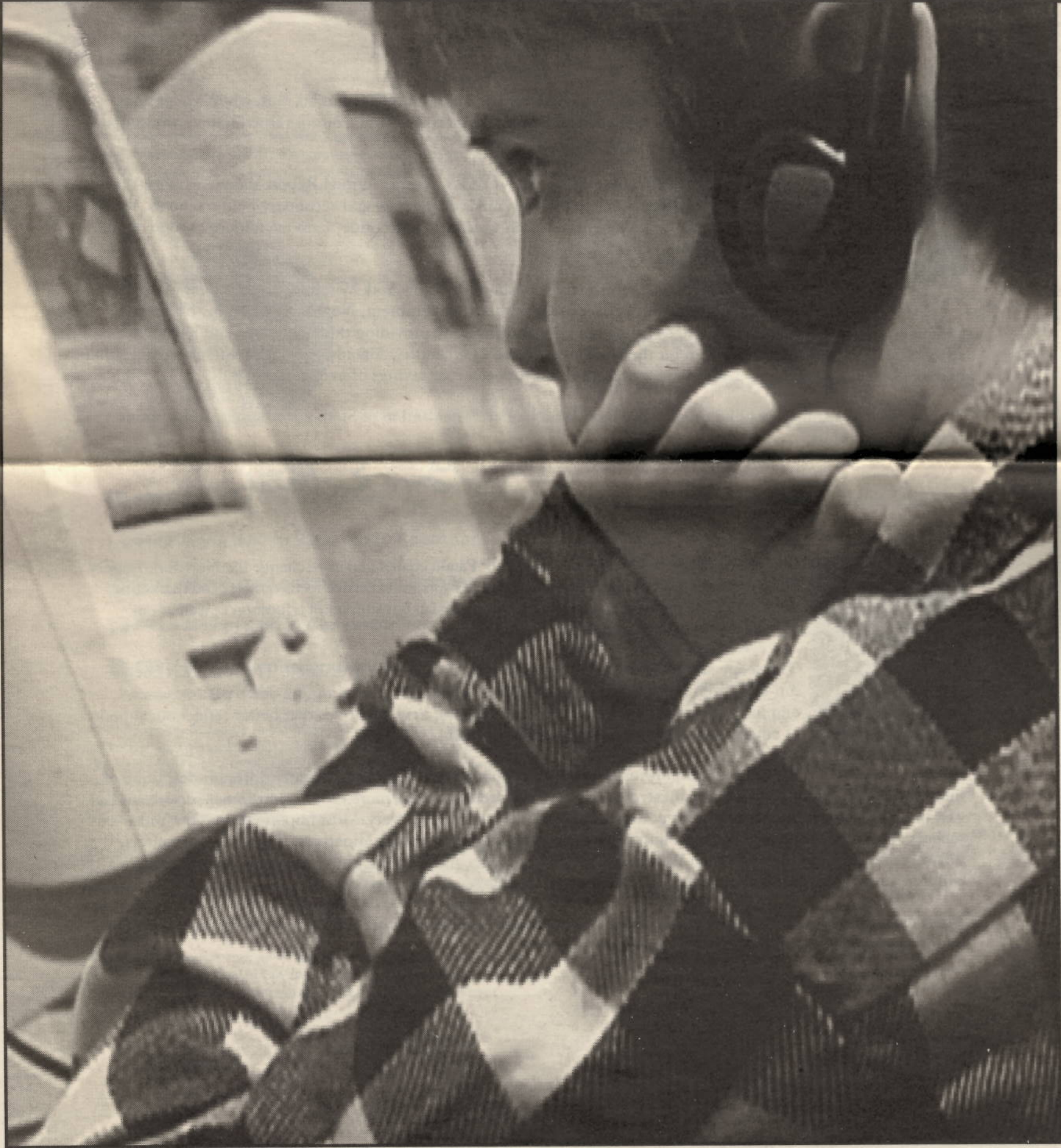




THE NEW YORK LOTTERY.
AN ANNUAL REPORT.



WELCOME TO THE NEW YORK LOTTERY'S 1997-1998 ANNUAL REPORT.



Governor George Pataki

The Lottery is a part of State government that is familiar to us all. But, while we all know the Lottery creates millionaires, far more important is the Lottery's true mission, the support of education in New York State.

No other lottery is as successful as New York's. As this Annual Report shows, last year the Lottery raised over \$1.5 billion for New York's elementary and secondary public schools. While this record is an achievement in which we can all take pride, I am even more excited about the Lottery's future.

The Lottery is now the primary sponsor of the New York Wired for Education initiative. A unique partnership between business and government, New York Wired for Education addresses one of the greatest challenges facing our education system: providing the technology and resources that schools need to prepare our children for the challenges of the 21st century. Already New York Wired for Education has wired over 3,000 schools across the State for the Internet at a cost savings of over \$20 million.

These initiatives and others like them make the Lottery a better institution of State government, and a better neighbor to all of us.

Gov. E. Pataki



Director Jeff Perlee

It has been nearly two years since Governor Pataki challenged us to change the New York Lottery. Since then, the Lottery has been transformed. From an exclusive focus on sales and marketing, the Lottery has put new and substantial emphasis on our support of education as well as our unique regulatory responsibilities.

The scope and meaning of this transformation cannot be overstated. The result has been a top-to-bottom rethinking and restructuring of our operations, toning down past excesses, eliminating inappropriate programs and creating new initiatives that better reflect our support of education, which is our very reason for being.

For Lottery employees, these changes have resulted in a completely different definition of their duties. For Lottery customers, these changes have resulted in better, more efficient customer service, and a vast improvement in the many ways that the public interacts with the Lottery. Most important, to New York schools, these changes have brought a host of new educational programs and initiatives. From new computers, software and Internet technology to Web-based teleconferencing and learning, these programs help prepare our children, and our State, for the technological and social challenges of the 21st century.

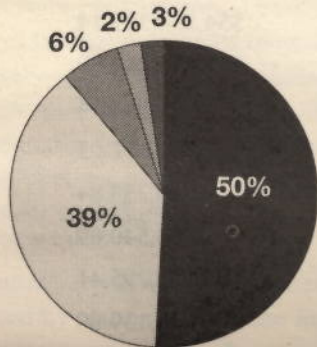
This is what the New York Lottery is all about. We appreciate your confidence and support as we continue this important transformation of the New York Lottery.

Jeff Perlee



WHERE DOES THE MONEY GO?

The Lottery benefits New York State'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 was \$1.5 billion. No state lottery has ever contributed more to education or any other cause.



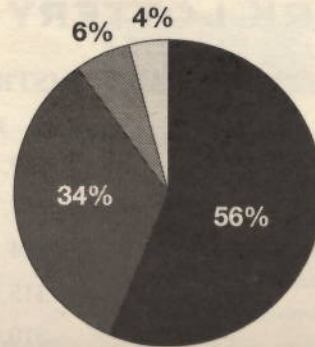
Where Lottery Sales Go

- \$2 Billion paid to prizewinners.
- \$1.5 Billion paid to State Aid to Education
- \$237 Million paid commission to Retailers.
- \$96.6 Million paid to Contractor fees.
- \$98.7 Million Administrative costs.

Considering the Lottery's remarkable success at raising funds for public schools, it's not surprising that many New Yorkers wonder why school district budgets are so tight. The simple truth is that \$1.5 billion represents only 6% of the \$26 billion it takes to fully fund elementary and secondary public education in New York State. The main source of funding for education continues to be local property taxes.

Of course, \$1.5 billion can go a long way. Among other things, \$1.5 billion is enough money to pay 10,000 teachers' salaries for a year, to heat every classroom in New York State for that same year, to purchase 20 million textbooks, and still have \$200 million left over for soccer balls, software, diplomas, chalk and field trips.

So, while the Lottery may never replace property taxes as the primary source of school funding, it can ease the burden while at the same time enriching the educational opportunities available to our children.



Where Schools Get Their Money

- \$14,582,049,000 Local Property Taxes*
- \$1,049,139,000 Federal Aid*
- \$1,528,894,000 New York Lottery
- \$8,782,347,000 other 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. It is not icing on the cake but part of the cake itself.

What the Lottery's contribution does mean is that last year 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 6/30/97



HOW MUCH DOES YOUR COUNTY GET?

NEW YORK LOTTERY 1997/1998 COUNTY DISTRIBUTION

COUNTY	DISTRIBUTION 1997-98	COUNTY	DISTRIBUTION 1997-98
Albany	\$17,325,364.24	Oncida	\$30,076,412.11
Allegany	\$8,211,898.37	Onondaga	\$54,254,327.14
Broome	\$24,267,702.22	Ontario	\$12,257,214.69
Cattaraugus	\$15,538,541.16	Orange	\$37,845,081.14
Cayuga	\$10,563,464.31	Orleans	\$7,584,671.03
Chautauqua	\$21,461,246.59	Oswego	\$18,038,758.84
Chemung	\$12,535,117.23	Otsego	\$7,514,540.69
Chenango	\$9,130,679.98	Putnam	\$4,750,295.41
Clinton	\$11,029,140.67	Rensselaer	\$16,248,139.60
Columbia	\$4,753,549.91	Rockland	\$11,159,646.51
Cortland	\$6,967,300.17	Saratoga	\$21,761,960.58
Delaware	\$5,148,940.03	Schenectady	\$12,991,178.46
Dutchess	\$19,878,206.43	Schoharie	\$3,961,151.02
Erie	\$94,592,313.27	Schuyler	\$2,182,930.10
Essex	\$2,022,561.87	Seneca	\$4,235,716.03
Franklin	\$7,249,910.18	St. Lawrence	\$17,004,508.75
Fulton	\$7,943,922.20	Steuben	\$16,400,420.74
Genesee	\$9,240,444.99	Suffolk	\$108,038,375.12
Greene	\$3,447,346.73	Sullivan	\$5,418,989.55
Hamilton	\$11,565.00	Tioga	\$8,788,292.16
Herkimer	\$10,164,553.08	Tompkins	\$7,923,767.67
Jefferson	\$15,991,085.02	Ulster	\$12,991,244.87
Lewis	\$4,526,568.19	Warren	\$5,914,285.19
Livingston	\$8,561,033.46	Washington	\$8,636,940.85
Madison	\$10,055,934.49	Wayne	\$15,015,633.43
Monroe	\$76,415,235.14	Westchester	\$26,921,956.72
Montgomery	\$6,922,131.29	Wyoming	\$5,311,110.57
Nassau	\$50,989,206.55	Yates	\$1,883,712.29
Niagara	\$27,106,734.35		
New York City	\$607,816,963.25		
(includes Bronx, Queens, Kings, New York and Richmond counties)			



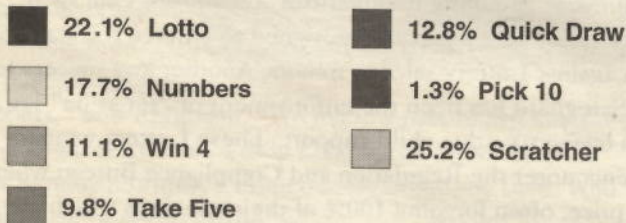
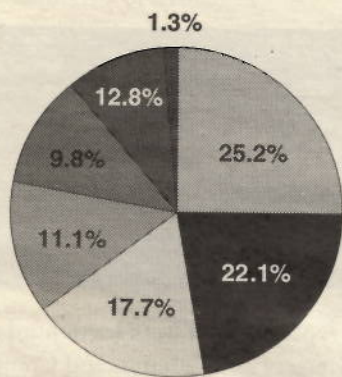
WHAT KIND OF GAMES DOES THE LOTTERY OFFER?

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

Lottery games such as Lotto, Take Five and the "Scratcher" line of products usually involve long odds, a broad customer appeal and wide participation. These products are advertised on radio and television in order to promote public awareness of the Lottery and to launch new games into the product mix. It is through these games that the bulk of the revenue the Lottery generates for State Aid to Education is raised. Supervision of these games is the responsibility of the Lottery's Sales and Marketing Bureau.

Lottery games such as Win 4, Numbers and Quick Draw are characterized by shorter odds, more limited participation and more frequent drawings. The Lottery does not advertise these games on radio or television. Rather, the Lottery sees its role with regard to these games primarily as that of regulator, assigning responsibility for their supervision to the Lottery's Regulation and Compliance Bureau.

SALES BREAKDOWN FOR THE FISCAL YEAR ENDED 3/31/98



LOTTO

Lotto, the New York Lottery's flagship game, is a multimillion-dollar jackpot game. Players select six numbers from a field of 1 through 54. In order to win the jackpot, players must match exactly six numbers randomly drawn by the Lottery. 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, and the Lottery offers players the option of receiving their winnings in one lump sum instead of annual payments. Lotto game sales have accounted for 22% of all Lottery sales for the past two years.

TAKE FIVE

Take Five is a pari-mutuel game similar in style to Lotto and designed to be its complement. Players choose five numbers from a field of 1 through 39. Cash prizes are awarded for matching five, four and three numbers, plus a bonus "Free Play" ticket for matching two numbers. Because the odds are just 1 in 8.77, Take Five generates hundreds of thousands of winners with every drawing. Take Five drawings take place on Mondays, Tuesdays, Thursdays and Fridays.



Quick Draw offers players a chance to win up to \$100,000. Players pick up to ten numbers from a field of 1 through 80 and try to match twenty numbers randomly chosen by the Lottery and broadcast on a television monitor.

NUMBERS

New York Numbers, in which a three-digit number is drawn, awards prizes which range from \$25 to \$500. New York Numbers is offered daily.

WIN 4

Another numbers-type game, Win 4 involves the random selection of a four-digit number and awards prizes ranging from \$100 to \$5,000. The Win 4 and New York Numbers drawings are televised consecutively each evening.

PICK 10

Pick 10 is another daily game that offers prizes up to \$500,000. Players choose ten numbers from a field of 1 through 80. The Lottery draws twenty numbers nightly with prizes awarded for matching ten, nine, eight, seven, six, even zero of the numbers drawn.



"Scratchers" is the Lottery's new name for all its Instant Games. Players simply scratch off a latex coating on the game card to see if they have won a prize which, depending on the game, can range from one dollar to tens of thousands!

Win For Life offers players a top prize of \$1,000 a week for life. To date, 62 New Yorkers have won the top prize.



Tax-Free Million offers players a top prize of \$1 million, tax free.



Quarterly Dividend offers players the opportunity to win a "quarterly dividend" of \$10,000 for the rest of their lives with a guarantee of receiving up to \$1 million.



Bingo provides an extended play format designed to simulate that of traditional bingo. Players match caller card numbers to those on four "player cards." Winners on this \$2 ticket can receive prizes up to \$10,000.



©1998 New York Lottery. You must be 18 or older to play Lottery games.



PLEASE PLAY RESPONSIBLY

The New York Lottery is one of the most proactive lotteries in the nation when it comes to addressing potential abuses of the Lottery. The Lottery continues to build on its past efforts to address the issue of problem gambling. The New York Council on Problem Gambling's toll-free Helpline number appears on the back of Lottery game brochures and play slips. That number is 1-800-437-1611. The Lottery provides \$1.5 million to help fund the Council each year, and continues to work with the Council to develop gambling awareness initiatives and training services to be made available to all Lottery employees and retailers. This training will help Lottery employees and retailers identify irresponsible gamblers and assist them in seeking treatment. The New York Lottery has game restrictions and safeguards designed to promote socially responsible play that no other state

has. "Operation Safeguard" represents an unprecedented series of initiatives launched by the Lottery's Regulation and Compliance Bureau to prevent gambling irregularities and abuses. One such initiative is Project 18+, a program designed to enforce the statutory prohibition against Lottery sales to minors. Another key success for Operation Safeguard has been the enforcement of "set aside" laws for winners owing past due child support. These Lottery winners must now encounter the Regulation and Compliance Bureau when claiming a prize, often forgoing 100% of their winnings which are then delivered to the courts.

We at the Lottery believe that no one benefits when something good is abused. We encourage players to keep things in perspective. The Lottery is just a game designed for a good cause, and when New Yorkers play responsibly, we all win.



LOTTERY WINNERS

200 MILLION WINNERS ALL OVER THE STATE

They come from all over New York State: from small towns to the big city, from the boroughs to the suburbs. And they all have one thing in common. They are all Lottery winners. This past year more than \$2 billion was won by holders of over 204 million winning Lottery tickets. The number of Lottery millionaires grew by 83, bringing the total number of millionaires created in the Lottery's 30-year history to 1,364.



The Revolorio brothers, Hector and Cristobal, of Spring Valley, won \$1 million in the Lottery's Golden Egg Scratcher game. "We bought the ticket and then went to a friend's house," said Cristobal. "Hector scratched the ticket and none of us could believe

what it said." Hector and Cristobal will receive their winnings in annual installments of \$100,000.

Merle Robinson of Flushing is sharing her half of a November 15, 1997, Lotto jackpot of \$25 million with her sister and her sister's three children.

"Three years ago we got together and picked these numbers," said Robinson. "We made a pact to call any time day or night if we won. I didn't check the numbers until 4 am Sunday morning. I immediately called my sister who thought she was still dreaming."



Oswego County resident Sharon Zuke is sharing her \$15 million Lotto jackpot with her sister and her brother. "It's always been a long-standing promise that if any one of us hit the Lottery we'd share it," said Zuke. "When I won, my sister and brother won too."



It's a superstition that good things come in threes, which is certainly true for Dorothy Ciambor of Buffalo, a three-time Lottery winner. "I've been pretty lucky," said Ciambor. "Three years ago, I won the jackpot in Take Five. Last summer, I shared second prize in Take Five, and now I've just won Win 4."

Andrew Sidote of Wappingers Falls won a \$10 million Lotto jackpot on June 11, 1997. Sidote, who chose to receive his winnings over a 25-year period, said, "I missed the televised drawing, and didn't find out that I won until late Thursday night. I still am having a hard time believing I won."





WHAT'S NEW AT THE NEW YORK LOTTERY?

RETHINKING LOTTERY SPONSORSHIPS

Lottery sponsorships and promotions are designed to be directly tied to education or an education-related program, reflecting the Lottery's renewed commitment to its support of education in New York.

EMPIRE STATE GAMES

The New York Lottery is now the primary sponsor of the Empire State Games, one of the premier amateur athletic sporting events in the nation. The concept of a statewide, Olympic-style amateur athletic competition began here in New York and our program has since been copied by 40 other states. Today, the Empire State Games comprise four separate sets of competitions - the Summer Games, the Winter Games, the Senior Games and the Games for the Physically Challenged. Tens of thousands of aspiring New York athletes participate in these games annually.



At the Lottery, we believe that athletics and athletic competition play an important part in promoting a well-rounded education. The Empire State Games are a perfect way for the Lottery to help fulfill its mission of supporting education while promoting the values of hard work, competition and fair play. The Lottery is proud to be a part of such a great New York program.

NEW YORK WIRED

Perhaps the Lottery's most significant new sponsorship is its support of the New York Wired for Education initiative launched by Governor Pataki. New York Wired for Education is a program dedicated to wiring schools and libraries across the State for Internet access, and helping to provide New York's schoolchildren with the technological tools and skills they will need to compete effectively in the 21st century. With the help and support of the Lottery, New York Wired for Education has developed several innovative and diverse programs, each designed to benefit the schoolchildren of New York State. Each of the following programs has grown out of the original New York Wired initiative.

INTERNET WIRING

In September 1996, the New York Lottery in conjunction with a unique coalition of business and government partners, sponsored an effort to wire 3,000 schools across the State for Internet access. A massive volunteer work force coupled with donated and discounted hardwiring and equipment enabled these initial 3,000 schools to be wired at a cost savings of over \$20 million. Even Governor Pataki donned a hard hat and work clothes to help wire his elementary school in Peekskill, Westchester County.

The Lottery followed this effort with the New York Wired Lottery Retailer Promotion which allowed local Lottery retailers to sponsor a school or library in their neighborhood. The Lottery matched the retailer's sponsorship dollar for dollar, enabling the local school or library to purchase a discounted hardwiring kit. Thousands of additional schools became wired for Internet access through this program.

NEW YORK WIRED SCHOLARS

The New York Wired Scholars program selects ten outstanding high school students from across New York to take part in a year-long "field trip" exploring every corner of the State. Scholars are selected on the basis of their academic standing, leadership abilities, extracurricular activities and communication skills. The Empire State becomes a living classroom as these young scholars explore New York, from magnificent Niagara Falls, to the beautiful Adirondacks, to the world-renowned centers of finance of lower Manhattan. In the process, the scholars learn firsthand about our rich historical and cultural traditions, our array of natural wonders and ecological concerns and our diverse and vibrant economy. A video crew is there to record all their observations, adventures and discoveries. The Scholars' learning adventures are packaged into a series of 30-minute television programs. The result is "New York Crossroads" which airs on PBS affiliates throughout New York State. The "New York Crossroads" series is also used as a supplement to the history curriculum of 7th and 8th graders. Scholars for the 1998-1999 school year have been selected and have already begun their year-long field trip with a visit to the rich agricultural region of Central New York. "New York Crossroads" begins its second broadcast season in October of 1998.





“NEW YORK CROSSROADS” BROADCASTS

MARKET	STATION	BEGIN	DAY	TIME
NYC, LI	WLIW	10/25/98	Sundays	5:30pm
Buffalo	WNED	09/04/98	Fridays	1:30pm
Albany	WTEN	10/04/98	Sundays	12:30pm
Syracuse	WCNY	10/04/98	Sundays	Noon
Rochester	WXXI	check local listing		6:30pm
Binghamton	WSKG	10/02/98	Fridays	12:30pm
Watertown	WNPE	10/12/98 -10/20/98		11:30am
Plattsburgh	WCFE	10/12/98	Mondays	Noon

“NY WIRED” TV BROADCASTS

MARKET	STATION	DAY	TIME
NYC	WNYW	FOX	Sunday Midnight
Buffalo	WGRZ	NBC	Sunday 12:30pm
<small>(time to change after 13 weeks)</small>			
Albany	WRGB	CBS	Sunday Midnight
Rochester	WHEC	NBC	Sunday 11:35pm
<small>(cleared through Jan. 17, 1999)</small>			
Binghamton	WBNG	CBS	Saturday (night) 12:30am
Watertown	WWTI	ABC	Saturday 11:00 pm
Elmira	WENY	ABC	Saturday 7:30pm
Utica	WPNY	UPN	Saturday 7:00pm
Plattsburgh	WPTZ	NBC	Saturday 7:30pm
Syracuse	WSTM	NBC	Sunday 11:35pm

“NY WIRED” TV

“NY Wired” TV is a fast-paced and exciting television game show from the New York Lottery. “NY Wired” is carried in every television market across the State and has just completed a very



successful inaugural season. Lottery contestants compete for prizes on behalf of audience members and for schools which are randomly selected from their communities. Since its debut last October, 114 schools have received more than \$2 million to enhance or establish computer labs with technology packages provided by New York Wired for Education. The show highlights the ways that schools utilize

the new technology, from a video teleconference between the Martin Luther King Center in Atlanta and PS 335 in Brooklyn to a hands-on tour of the state-of-the-art imaging center at Kodak Park in Rochester. For contestants, viewers, for our schools and our children, “NY Wired” TV is a show that makes winners of us all.



NEW YORK WIRED EDUCATIONAL SOLUTIONS CENTER

The New York Wired Educational Solutions Center in Albany is designed to help teachers and school administrators learn about the educational opportunities available through the Internet and technology-driven classrooms. The Center presents a series of model “wired” classrooms which demonstrate the variety of educational programs and packages available to the “virtual classroom.” The model technology packages including hardware, software, servers and Internet links are assembled by New York Wired for Education and can be tailored to a variety of school district budgets. Technology programs for teachers are developed through the Department of Education and implemented by The Solutions Center. The New York Wired Educational Solutions Center provides educators with the tools and information they need in order to bring the promise of the “Information Superhighway” to their hometown schools and students.



REVENUES AND EXPENSES

YEARS ENDED MARCH 31, 1998 AND 1997 (IN THOUSANDS)

	1998	1997
Revenue:		
Ticket sales	\$3,943,096	\$3,992,314
Interest income	141,196	140,791
Other income	938	3,182
Total revenue	<u>4,085,230</u>	<u>4,136,287</u>
Expenses:		
Prizes	1,993,973	2,026,162
Agent commissions	236,851	240,326
Contractor fees	95,595	96,783
"Scratcher" ticket printing	9,107	11,012
General and administrative expenses	89,631	87,437
Interest expense	131,219	131,810
Total expense	<u>2,556,376</u>	<u>2,593,530</u>
Net income and required allocation to education	<u>\$1,528,854</u>	<u>\$1,542,757</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, 1998 AND 1997 (IN THOUSANDS)

ASSETS	1998	1997
Current assets:		
Cash and cash equivalents	\$151,078	\$155,189
Accounts receivable	175,904	169,403
Investments, at amortized cost	199,177	194,953
"Scratcher" ticket inventory	5,842	3,760
Total current assets	<u>532,001</u>	<u>523,305</u>
Long-term investments, at amortized cost	1,444,529	1,448,673
Equipment and leasehold improvements, net of accumulated depreciation and amortization	<u>2,345</u>	<u>3,261</u>
Total assets	<u>\$1,978,875</u>	<u>\$1,975,239</u>
LIABILITIES		
Current liabilities:		
Prizes payable	\$199,192	\$195,063
Unclaimed and future prizes	200,644	197,331
Due to education	70,650	75,720
Due to administration	15,669	13,018
Deferred revenue	14,851	10,910
Other payables	11,545	15,802
Total current liabilities	<u>512,551</u>	<u>507,844</u>
Long-term prizes payable	1,466,324	1,467,395
Commitments and contingencies	—	—
Total liabilities	<u>\$1,978,875</u>	<u>\$1,975,239</u>

**EXECUTIVE STAFF****Director**

Jeff Perlee

Deputy Director, Director of Communications

Stephen M. Dolan

Director of Marketing and Sales

Connie H. Lavery

Director of Operations

Daniel J. Codden

Director of Financial Administration

Gerald S. Woitkoski

Director of Regulation and Compliance

Diane C. Scala

General Counsel

William J. Murray

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Questions or comments, please write to the Lottery's main office:

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