



THE DELAWARE LOTTERY
2002 ANNUAL REPORT

FOR THE FISCAL YEAR ENDING JUNE 30, 2002



HOW MUCH THE LOTTERY HELPS

During the fiscal year ending June 30, 2002, the Delaware Lottery contributed \$230 million to the state's General Fund, an increase of 12 percent over the previous year.

Since 1975, the Lottery has...

- Generated more than \$4 billion in revenue
- Paid out more than \$897 million in cash and other prizes to winners of traditional lottery games
- Contributed more than \$1.4 billion to the State of Delaware

WHERE THE MONEY GOES

The Delaware Lottery, by law, exists to generate income the state needs to fund state services. The Lottery accomplishes this by contributing nearly one-third of its sales to the State General Fund.

The State General Fund is the pool of dollars that supports the majority of state services. Established by the State Legislature in 1975 as a means of generating revenue, the Delaware Lottery operates under the State Department of Finance. The Legislature allocates the General Fund, with the governor's approval, in support of state services including education, health and social services; public safety; judicial and corrections; and various children, youth and family organizations.

In addition to the Lottery, other sources of income for the General Fund are state taxes, franchise taxes, gross receipts taxes, public utilities taxes, and cigarette taxes. Without the Lottery's contribution to the General Fund, more taxes would be needed to fund our state services. Therefore, the Lottery dollars benefit everyone who lives in, works in or visits Delaware.

RETAILER NETWORK

The Lottery supports the small business community in Delaware, which serves as its network of licensed Lottery retailers. The network consists of nearly 500 retailers throughout the state who are responsible for daily contact with players and the sale of Lottery tickets. The economic wealth of local communities benefits from this partnership. The Lottery achieves this by offering sales incentives to retailers and commission bonuses to retailers who sell winning tickets. The Lottery also supports retailers by providing signs and other in-store merchandising and training materials.

VIDEO LOTTERY VENUES

Under the supervision of the Delaware Lottery, Video Lottery is operated at the three racetracks in the state. Delaware Park and Dover Downs have been operating Video Lottery since December 1995, and Harrington Raceway began Video Lottery operations in August 1996. Video Lottery provides a source of business and revenue needed to support legislative efforts to rejuvenate the state's horse racing industry. Based on net proceeds per machine, Delaware's Video Lottery has been and continues to be the most successful in the United States.

RESPONSIBILITY

The Lottery recognizes the need to balance its legal responsibility with its operation, achieving this by using "Play Responsibly" messages, as well as the toll-free Delaware Gambling Helpline telephone number, in advertising and other communications. The messages on Lottery communications provide resources for people seeking help for problems with gambling. The Lottery contributed more than \$1.5 million in fiscal year 2002 to help fund gambling programs offered by the Department of Health and Social Services. Furthermore, the Lottery supports laws that require targeting only players 18 years of age or older.

Through its ongoing public relations programs, the Lottery regularly encourages players (especially when jackpots are high) to play responsibly and not to spend more than they can afford on tickets.

ACCESSIBILITY

In October 2001, the Delaware Lottery announced completion of the first phase of its Retailer Accessibility Process, based on its obligations under the Americans with Disabilities Act (ADA) of 1992 and Lottery Rules and Regulations. This marked the end of a three-year process of inspections, consultations and re-inspections bringing all current Lottery retailers into compliance with Lottery Accessibility Rules and Regulations. Ongoing efforts will focus on maintaining compliance throughout the Lottery Retailer Network and inspecting new applicant locations before licensing.

DELOTTERY.COM

In an effort to ensure that the information on the Delaware Lottery Web site is accessible to all, the Lottery voluntarily conformed the majority of its Web site content to emerging government and industry Web presentation standards. These standards for Web site presentation and accessibility were developed to provide the public and people with disabilities, or limited technology, access to all the Web has to offer.

The site was among the first State of Delaware agency Web sites with the majority of its content compliant with guidelines developed through the Web Accessibility Initiative of the World Wide Web Consortium (W3C) and the recently adopted Web Presentation Guidelines for State of Delaware Agencies developed by the Government Information Center as part of Governor Ruth Ann Minner's e-Government initiative.



Delaware State Lottery

*Statement of Revenue, Expenses and Change in Net Assets For the years ended June 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Revenue:		
Video lottery, net	\$ 556,802,325	\$ 504,091,772
On-line games	96,173,056	77,713,778
Instant games	21,043,776	19,350,486
Other	29,635	55,381
Total revenue	<u>674,048,792</u>	<u>601,211,417</u>
Cost of games:		
Video lottery commissions	269,661,454	245,174,029
Prize costs, net of reversions	59,181,019	48,656,375
Gaming vendor fees and costs	36,506,978	32,428,424
On-line and instant games commissions	7,438,415	5,755,940
Total cost of games	<u>372,787,866</u>	<u>332,014,768</u>
Gross profit	<u>301,260,926</u>	<u>269,196,649</u>
Operating expenses:		
Advertising and promotions	2,507,583	2,872,828
Payroll and related benefits	1,547,673	1,545,772
Other general and administrative	3,240,149	2,886,847
Total operating expenses	<u>7,295,405</u>	<u>7,305,447</u>
Operating income	293,965,521	261,891,202
Non-operating expenses:		
Contributions to the Delaware Standardbred Breeder's Program	2,000,000	2,000,000
Contributions to the State of Delaware	292,406,204	259,950,519
Change in net assets	(440,683)	(59,317)
Net assets, beginning of year	940,683	1,000,000
Net assets, end of year	<u>\$ 500,000</u>	<u>\$ 940,683</u>

Delaware State Lottery
***Balance Sheet
June 30, 2002 and 2001**

	<u>2002</u>	<u>2001</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,978,893	\$ 2,885,102
Accounts receivable, net of allowance of \$655,870 and \$639,774, respectively	12,867,267	10,282,795
Investments	2,611,585	18,141,194
Prepaid expenses	<u>265,966</u>	<u>193,617</u>
Total current assets	\$ 17,723,711	\$ 31,502,708
Property and equipment, net	664,117	839,613
Investments	13,914,815	
Deposit with Multi-State Lottery	<u>1,738,612</u>	<u>1,711,267</u>
Total assets	<u>\$ 34,041,255</u>	<u>\$ 34,053,588</u>
Liabilities and net assets		
Current liabilities:		
Prizes liability, including \$2,611,585 and \$18,141,194, respectively, of prize installment obligations	\$ 7,949,693	\$ 22,019,865
Accounts payable and accrued liabilities	8,938,685	7,805,142
Due to the State of Delaware	<u>2,738,062</u>	<u>3,287,898</u>
Total current liabilities	19,626,440	33,112,905
Prize installment, obligations, noncurrent	<u>13,914,815</u>	
Total liabilities	<u>33,541,255</u>	
Net assets:		
Investment in capital assets	<u>664,117</u>	
Unrestricted	<u>(164,117)</u>	
Total net assets	500,000	940,683
Total liabilities and net assets	\$ 34,041,255	\$ 34,053,588



Delaware State Lottery

*Statement of Cash Flows For the years ended June 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Operating activities:		
Receipts from customers	\$ 671,434,685	\$ 597,794,175
Other operating receipts	29,635	55,381
Payments to vendors for goods and services	(42,188,713)	(37,747,552)
Payments to employees for services	(1,558,790)	(1,513,744)
Payments for prizes	(60,464,940)	(52,752,157)
Payments for commissions	(275,930,337)	(249,703,146)
Net cash from operating activities	<u>291,321,540</u>	<u>256,132,957</u>
Capital financing activities:		
Purchase of property and equipment	(15,067)	
Net cash from capital financing activities	<u>(15,067)</u>	
Noncapital financing activities:		
Contributions to the Delaware Standardbred Breeder's Program	(2,000,000)	(2,000,000)
Contributions to the State of Delaware	(292,956,040)	(258,317,667)
Net cash from noncapital financing activities	<u>(294,956,040)</u>	<u>(260,317,667)</u>
Investing activities:		
Proceeds from maturity of investments	2,743,358	2,785,025
Net decrease in cash and cash equivalents	(906,209)	(1,399,685)
Cash and cash equivalents, beginning of year	2,885,102	4,284,787
Cash and cash equivalents, end of year	<u>\$ 1,978,893</u>	<u>\$ 2,885,102</u>

***Statement of Cash Flows**
For the years ended June 30, 2002 and 2001 (continued)

	<u>2002</u>	<u>2001</u>
Reconciliation of operating income to net cash from operating activities:		
Operating income	\$ 293,965,521	\$ 261,891,202
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation expense	190,563	192,573
Effect from changes in operating assets and liabilities:		
Accounts receivable, net	(2,584,472)	(3,361,861)
Deposit with Multi-State Lottery	(27,345)	(143,330)
Prepaid expenses	(72,349)	45,828
Prizes liability	(1,283,921)	(4,095,782)
Accounts payable and accrued liabilities	1,133,543	1,604,327
Net cash provided by operating activities	<u>\$ 291,321,540</u>	<u>\$ 256,132,957</u>

*The Delaware Lottery's financial statements are audited by the firm Ernst & Young LLP. If you would like a complete copy of the Lottery's official audited financial statements (including the notes), please write to the Delaware Lottery Office at McKee Business Park, 1575 McKee Road, Suite 102, Dover, Delaware, 19904.

THE DELAWARE LOTTERY GAMES

The Delaware Lottery offers players a wide variety of games with different price points, play styles and prize levels. Current Delaware Lottery games are:

PLAY 3 and PLAY 4
LOTTO
Instant Games
POWERBALL® with Power Play®
Video Lottery

PLAYER INFORMATION LINE

For winning numbers and other Delaware Lottery information:

Call

1-800-338-6200 in Delaware
302-736-1436 out of state

Or visit

delottery.com

Delaware Lottery Office
McKee Business Park
1575 McKee Road, Suite 102
Dover, Delaware 19904
302-739-5291

Play Responsibly

If you or someone you know has a gambling problem, call Delaware Gambling Helpline.
1-888-850-8888

It's The Law

You must be 18 years of age or older to purchase tickets for Delaware Lottery games.