

2008 annual report



Delaware
Lottery

for the fiscal year ending June 30, 2008

From the Director, Wayne Lemons

While 2008 was a financially challenging year for many, the Delaware Lottery successfully contributed a sizable amount to the state's General Fund, thereby lessening the burden on taxpayers. Although overall Lottery revenues fell by approximately two percent compared to fiscal year 2007, the Lottery again accomplished its primary mission by delivering \$252.5 million toward important state projects and services that benefit all Delawareans.

This year the Lottery successfully launched HOT LOTTO® and held the second consecutive sell-out for the New Year's Eve Delaware RAFFLE game. Video lottery terminals again accounted for the lion's share of income with more than \$611.5 million in net revenue. Revenues were also up for Instant Games product line and the multi-state POWERBALL® game.

The Lottery is proud to continue fulfilling its mission by contributing a total of \$252.5 million to the state, thereby maintaining its position as the fourth largest source of revenue for Delaware. This most recent contribution raises the Lottery's cumulative 32-year General Fund contribution to more than \$2.83 billion, all of which helps support State services.

Licensed Video Lottery operators installed 900 new machines this year and now collectively offer more than 7,800 Video terminals at Delaware Park, Dover Downs and Harrington Raceway. Delaware's Video Lottery continues to be one of the most successful in the country on a net-proceeds-per-machine-basis thanks in part to continual upgrades and improvements. Delaware recently became the first lottery jurisdiction in the United States to offer Alfastreet automated roulette machines and continually deploys the very latest equipment and game themes.

The Lottery was pleased to award an impressive number of prizes this past year. A lucky 4,607,248 players and second-chance prize winners stepped forward to claim nearly \$65.9 million in prizes from July 2007 to June 2008. With winners from Smyrna to Seaford, Middletown to Millsboro and Wilmington to Wyoming, there was likely a significant winner in your town no matter what part of Delaware you call home. All told, the Delaware Lottery has paid out more than \$1.23 billion in cash and other prizes to winners of traditional lottery games.

The Lottery looks forward to continued success in fiscal year 2009 and to deliver on behalf of everyone who lives in, works in or visits Delaware. With the Lottery's contribution to the General Fund, we all win!



Wayne Lemons
Director, Delaware Lottery



2008 at a Glance

During the fiscal year ending June 30, 2008, the Delaware Lottery contributed \$252.5 million to the state's General Fund, maintaining its position as the fourth largest source of revenue for the state.

Since 1975, the Lottery has...

- Generated more than \$8.45 billion in revenue
- Paid out more than \$1.23 billion in cash and other prizes to winners of traditional lottery games
- Contributed more than \$2.83 billion to the State of Delaware

General Fund: Giving Back to the State

The Lottery exists, by law, to generate income to fund essential state services. The Lottery accomplishes this by contributing all profits from ticket game sales and Video Lottery operations to the State's General Fund, 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. With the governor's approval, the Legislature is responsible for allocating the General Fund. State services that benefit from the General Fund include Delaware's public education system; the departments of 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 receipt taxes, public utilities taxes and cigarette taxes. Without the Lottery's contribution to the General Fund, additional tax dollars would be needed to fund state services. Therefore, the Lottery benefits everyone who lives in, works in or visits Delaware.



General Fund: Giving Back to the State

Products

The Lottery supports its mission to maximize revenue contributions to the state's General Fund through marketing, sale and distribution of innovative, entertaining and secure lottery products through its network of licensed retailers. These products include popular games such as POWERBALL®, HOT LOTTO®, Multi-Win LOTTO, PLAY 3, PLAY 4 and a variety of Instant Games. The network consists of nearly 600 retailers throughout the state who are responsible for daily contact with players and the sale of Lottery tickets.

Accessibility

The Lottery continues to identify and license new retail outlets to fulfill its obligation to ensure its products are accessible to all adult citizens, including persons with disabilities. The Lottery will continue to require that its existing retailers provide access to Lottery products in their stores for all customers in accordance with Lottery rules and regulations and guidelines required by the Americans with Disabilities Act.

Incentives

The economic wealth of local communities benefits from the Lottery's relationship with local businesses licensed to sell Lottery tickets. Retailers receive sales incentives and bonuses for the sale of Lottery tickets. Lottery tickets help to drive traffic in to stores and diversify overall product offerings for merchants. Lottery products are sold in stores in a variety of trade styles, from mom-and-pop shops to corporate chains. It all adds up to healthy business communities in New Castle, Kent and Sussex counties.

Video Lottery: Paving the Way

Video Lottery provides a source of business and revenue needed to support legislative efforts to rejuvenate the state's horse racing industry. 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 of 1995 and Harrington Raceway began Video Lottery operations in August of 1996.

Today the racetracks collectively offer more than 7,800 Video Lottery terminals, with 3,191 machines at Delaware Park, 2,632 at Dover Downs and 2,061 at Harrington raceway. Delaware's Video Lottery continues to be one of the most successful in the United States on a net-proceeds-per-machine basis.

Delaware State Lottery
Statements of Revenue, Expenses, and Change in Net Assets
For the years ending June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Revenue:		
Video lottery, net	\$ 611,538,875	\$ 635,676,294
Video lottery machine license fees	935,350	1,186,999
Video lottery performance surcharge	4,197,609	-
Video lottery expired jackpots and credit slips	674,782	-
Online games	89,338,486	85,196,546
Instant games	35,575,362	33,067,084
Total revenue	<u>742,260,464</u>	<u>755,126,923</u>
Cost of games:		
Video lottery commissions	291,035,697	302,239,827
Video lottery franchise game fees	4,245,659	3,100,349
Prize costs, net of reversions	65,895,722	61,324,989
Gaming vendor fees and costs	43,085,897	43,864,367
Online and instant games commissions	7,716,525	7,018,780
Sales aids	27,467	18,384
Total cost of games	<u>412,006,967</u>	<u>417,566,696</u>
Gross profit	<u>330,253,497</u>	<u>337,560,227</u>
Operating expenses:		
Advertising and promotions	2,768,974	2,484,138
Payroll and related benefits	2,073,357	1,832,546
Other general and administrative	2,372,808	2,165,275
Depreciation expense	1,507	62,049
Total operating expenses	<u>7,216,646</u>	<u>6,544,008</u>
Operating income	<u>323,036,851</u>	<u>331,016,219</u>
Nonoperating expenses:		
Contributions to the Delaware Standardbred Breeder's Program	3,000,000	3,000,000
Contributions to the Delaware Certified Thoroughbred Program	1,000,000	1,000,000
Contributions to the State of Delaware	319,841,809	326,959,769
Change in net assets	<u>(804,958)</u>	<u>56,450</u>
Net assets at beginning of year	1,000,000	943,550
Net assets at end of year	<u>\$ 195,042</u>	<u>\$ 1,000,000</u>

**Delaware State Lottery
Comparative Balance Sheets
For the years ending June 30, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,834,342	\$ 8,652,993
Accounts receivable, net of allowance of \$724,864 and \$724,864, respectively	14,940,036	12,492,244
Investments – restricted for payment of prize liabilities	1,698,921	2,052,815
Total current assets	<u>22,473,299</u>	<u>23,198,052</u>
Noncurrent assets:		
Capital assets, net	5,274	6,781
Investments – restricted for payment of prize liabilities	2,966,340	4,545,589
Deposit with Multi-State Lottery	2,122,417	1,683,048
Total noncurrent assets	<u>5,094,031</u>	<u>6,235,418</u>
Total assets	<u>\$ 27,567,330</u>	<u>\$ 29,433,470</u>
Liabilities and Net Assets		
Current liabilities:		
Prizes liability, including \$1,698,921 and \$2,052,815, respectively, of prize installment obligations	\$ 5,982,328	\$ 6,150,681
Accounts payable and accrued liabilities	9,729,664	8,491,160
Due to the State of Delaware	6,325,216	7,562,992
Total current liabilities	<u>22,037,208</u>	<u>22,204,833</u>
Noncurrent liabilities:		
Multi-State Lottery reserve	2,122,417	1,683,048
Prize installment obligations, noncurrent	2,966,340	4,545,589
OPEB liability	246,323	-
Total liabilities	<u>27,372,288</u>	<u>28,433,470</u>
Net assets:		
Invested in capital assets	5,274	6,781
Unrestricted	189,768	993,219
Total net assets	<u>195,042</u>	<u>1,000,000</u>
Total liabilities and net assets	<u>\$ 27,567,330</u>	<u>\$ 29,433,470</u>

Delaware State Lottery
Statements of Cash Flows
For the years ending June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Receipts from customers	\$ 739,812,672	\$ 750,170,844
Payments to vendors for goods and services	(52,788,299)	(49,823,459)
Payments to employees for services	(1,823,095)	(1,792,421)
Payments for prizes	(67,643,324)	(63,161,508)
Payments for commissions	(297,230,163)	(307,200,775)
Net cash provided by operating activities	<u>320,327,791</u>	<u>328,192,681</u>
Cash flows from noncapital financing activities:		
Contributions to the Delaware Standardbred Breeder's Program	(3,000,000)	(3,000,000)
Contributions to the Delaware Certified Thoroughbred Program	(1,000,000)	(1,000,000)
Contributions to the State of Delaware	(321,079,585)	(323,519,406)
Net cash used in noncapital financing activities	<u>(325,079,585)</u>	<u>(327,519,406)</u>
Cash flows from investing activity:		
Proceeds from maturity of investments	1,933,143	1,857,320
Net cash provided by investing activity	<u>1,933,143</u>	<u>1,857,320</u>
Net (decrease) increase in cash and cash equivalents	(2,818,651)	2,530,595
Cash and cash equivalents at beginning of year	8,652,993	6,122,398
Cash and cash equivalents at end of year	<u>\$ 5,834,342</u>	<u>\$ 8,652,993</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 323,036,851	\$ 331,016,219
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	1,507	62,049
Changes in operating assets and liabilities:		
Accounts receivable, net	(2,447,792)	(3,769,080)
Prepaid expenses	-	215,575
Deposit with Multi-State Lottery	(439,369)	40,280
Prizes liability	(1,747,602)	(1,836,519)
Accounts payable and accrued liabilities	1,924,196	2,464,157
Net cash provided by operating activities	<u>\$ 320,327,791</u>	<u>\$ 328,192,681</u>

Promoting Responsible Play

The Lottery follows State of Delaware ethics guidelines and self-imposed standards in all its advertising, marketing and communications activities to ensure fulfillment of its responsibility to the public.

As a component of its civic responsibility, the Lottery helps fund programs offered by the state's Department of Health and Social Services for problem gamblers. The Lottery contributed more than \$1.7 million in fiscal year 2008 to help fund gambling-related programs offered by the Department of Health and Social Services through the Delaware Gambling Helpline.

The Lottery further supports responsible play with messages in advertising, at point-of-purchase and in other communications: "Play Responsibly" and "It's the Law: You must be 18 years of age or older to purchase Delaware Lottery tickets." When jackpots are high, public statements are issued to include gambling assistance numbers and to remind players not to spend more than they can afford for Lottery tickets.

Responsibility is extended through age restrictions and the security surrounding winning tickets. The Lottery and its licensed retailer network support laws to restrict use and marketing of its products to players 18 years of age and older. In-store Quick Check features allow players to check their own tickets, and signs at point of sale remind players to sign their tickets.

The Lottery's Web site is designed to comply with the accessibility guidelines developed through the WAI (Web Accessibility Initiative) and the Web Presentation Guidelines for State of Delaware Agencies.

Finally, the Delaware Lottery helps players protect themselves through a Delaware Law that allows them to maintain their anonymity and withhold their name and likeness from being used for promotional purposes. After all, winner privacy is our policy.



The Delaware Lottery's financial statements are audited by the firm KPMG 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, DE, 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:

PLAY3®/PLAY4® MULTI-WIN LOTTO

INSTANT GAMES VIDEO LOTTERY



Player Information Line

For winning numbers and other Delaware Lottery information:

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

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

Or visit www.delottery.com

