



**2009 Annual Report
for the fiscal year ending June 30, 2009**



From the Director, Wayne Lemons

Fiscal year 2009 offered the Delaware Lottery an opportunity to harness change and help the State begin to address economic and budgetary obstacles emerging in a difficult economic climate. The Lottery continued to deliver on its role as a top revenue generator for the State while preparing for upcoming initiatives that would impact the future of gaming in Delaware. The 12-month period also saw the Lottery reinforce its role in developing relationships with community businesses, both small and large, from independent retail operators to the largest entertainment destinations in the state.



Both the Lottery's Traditional and Video Lottery Games generated a steady stream of revenue, contributing \$248 million to the State this fiscal year. Traditional Lottery games continued to entertain players, engaged new audiences and drew thousands of consumers to outlets that offer Delaware Lottery Games. The Lottery also developed stronger relationships with community businesses throughout the year. More than 500 Licensed Retailers served the First State as the front line of player communication and interaction. In the meantime, Video Lottery games were rotated regularly to keep products fresh and consumers entertained. Video operators collectively offer more than 8,000 video terminals at Delaware Park, Dover Downs and Harrington Raceway.

These stakeholders are one of the most important components of our operations and perform a critical function in helping the Lottery fulfill its mission to generate revenues to benefit all State residents. We strive to make these relationships mutually beneficial by offering attractive products to a variety of operators so their businesses become more profitable and more appealing to consumers.

While this fiscal year was one of the most financially challenging in the State's history, the Lottery successfully contributed a sizable amount to the General Fund, decreased the burden on taxpayers, and generated additional revenue for many hundreds of businesses statewide. The Lottery is proud of its contributions and its ability to maintain integrity in preparation for change and newfound opportunities.

A handwritten signature in black ink that reads "Wayne Lemons". The signature is written in a cursive, flowing style.

Wayne Lemons
Director of The Delaware Lottery

2009 At A Glance

During the fiscal year ending June 30, 2009, the Delaware Lottery contributed \$248 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 **\$9.16 billion** in revenue
- Paid out more than **\$1.3 billion** in cash and other prizes to winners of traditional lottery games
- Contributed more than **\$3.07 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®, FAST PLAY®, 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.

As of June 30, 2009, the racetracks collectively offered 8,046 Video Lottery terminals, with 2,966 machines at Delaware Park, 3,029 at Dover Downs and 2,051 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

Years ended June 30, 2009 and 2008

REVENUE:

	<u>2009</u>	<u>2008</u>
Video lottery, net	\$ 578,982,656	611,538,875
Video lottery machine license fees	1,446,830	935,350
Video lottery performance surcharge	—	4,197,609
Video lottery expired jackpots and credit ships	707,766	674,782
Online games	86,701,779	89,338,486
Instant games	36,469,211	35,575,362
Total Revenue	<u>704,308,242</u>	<u>742,260,464</u>

COST OF GAMES:

Video lottery commissions	265,774,363	291,035,697
Video lottery franchise game fees	—	4,245,659
Prize costs, net of reversions	66,796,659	65,895,722
Gaming vendor fees and costs	41,334,874	43,085,897
Online and instant games commissions	7,384,756	7,716,525
Sales aids	60,591	27,467
Total cost of games	<u>381,351,243</u>	<u>412,006,967</u>
Gross Profit	<u>322,956,999</u>	<u>330,253,497</u>

OPERATING EXPENSES:

Advertising and promotions	2,339,603	2,768,974
Payroll and related benefits	2,059,138	2,073,357
Other general and administrative	2,508,811	2,372,808
Depreciation expense	1,507	1,507
Total operating expenses	<u>6,909,059</u>	<u>7,216,646</u>
Operating income	<u>316,047,940</u>	<u>323,036,851</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	311,836,851	319,841,809
Change in net assets	<u>211,089</u>	<u>(804,958)</u>

NET ASSETS AT BEGINNING OF YEAR

195,042

1,000,000

NET ASSETS AT END OF YEAR

\$ 406,131

195,042

DELAWARE STATE LOTTERY

Balance Sheets

June 30, 2009 and 2008

ASSETS	<u>2009</u>	<u>2008</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 4,709,131	5,834,342
Accounts receivable, net of allowance of \$724,864 and \$724,864, respectively	10,624,268	14,940,036
Investments – restricted for payment of prize liabilities	1,384,575	1,698,921
Total current assets	<u>16,717,974</u>	<u>22,473,299</u>
NONCURRENT ASSETS:		
Capital Assets, net	3,767	5,274
Investments – restricted for payment of prize liabilities	1,900,984	2,966,340
Deposit with Multi-State Lottery	2,290,358	2,122,417
Total noncurrent assets	<u>4,195,109</u>	<u>5,094,031</u>
Total assets	<u>\$ 20,913,083</u>	<u>27,567,330</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Prizes liability, including \$1,384,575 and \$1,698,921, respectively, of prize installment obligations	\$ 5,142,849	5,982,328
Accounts payable and accrued liabilities	6,016,173	9,729,664
Due to the State of Delaware	4,600,763	6,325,216
Total current liabilities	<u>15,759,785</u>	<u>22,037,208</u>
NONCURRENT LIABILITIES:		
Multi-State Lottery reserve	2,290,358	2,122,417
Prize installment obligations, noncurrent	1,900,984	2,966,340
OPEB liability	555,825	246,323
Total liabilities	<u>20,506,952</u>	<u>27,372,288</u>
NET ASSETS:		
Invested in capital assets	3,767	5,274
Unrestricted	402,364	189,768
Total net assets	<u>406,131</u>	<u>195,042</u>
Total liabilities and net assets	<u>\$ 20,913,083</u>	<u>27,567,330</u>

DELAWARE STATE LOTTERY
Statements of Cash Flows
Years ended June 30, 2009 and 2008

CASH FLOWS FROM OPERATING ACTIVITIES:	<u>2009</u>	<u>2008</u>
Receipts from customers	\$ 708,624,010	739,812,672
Payments to vendors for goods and services	(46,538,179)	(52,788,299)
Payments to employees for services	(1,736,917)	(1,823,095)
Payments for prizes	(68,701,494)	(67,643,324)
Payments for commissions	<u>(276,591,029)</u>	<u>(297,230,163)</u>
Net cash provided by operating activities	<u>315,056,391</u>	<u>320,327,791</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	<u>(313,561,304)</u>	<u>(321,079,585)</u>
Net cash used in noncapital financing activities	<u>(317,561,304)</u>	<u>(325,079,585)</u>
CASH FLOWS FROM INVESTING ACTIVITY:		
Proceeds from maturity of investments	<u>1,379,702</u>	1,933,143
Net cash provided by investing activity	<u>1,379,702</u>	<u>1,933,143</u>
Net decrease in cash and cash equivalents	(1,125,211)	(2,818,651)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>5,834,342</u>	8,652,993
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 4,709,131</u>	<u>5,834,342</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income	\$ 316,047,940	323,036,851
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	1,507	1,507
Changes in operating assets and liabilities:		
Accounts receivable, net	4,315,768	(2,447,792)
Deposit with Multi-State Lottery	(167,941)	(439,369)
Prizes liability	(1,904,835)	(1,747,602)
Accounts payable and accrued liabilities	<u>(3,236,048)</u>	1,924,196
Net cash provided by operating activities	<u>\$ 315,056,391</u>	<u>320,327,791</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 2009 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
INSTANT GAMES
VIDEO LOTTERY
FAST PLAY[®]
MULTI-WIN LOTTO

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

