



1995 Annual Report

Celebrating a 20-year winning tradition



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As the Lottery celebrates its 20th Anniversary, I believe it is important to recognize its significant contribution to providing services

throughout the state, including educating Delaware's children, protecting the environment and increasing access to affordable healthcare for needy families. In Fiscal Year 1995, the Lottery contributed \$43.3 million to the state's General Fund, a 26 percent increase over last year, to help pay for these services. This amazing achievement demonstrates the exceptional commitment of the Lottery staff and Retailers, and ensures that the Delaware Lottery will continue to be among the best in the nation. I commend their high degree of professionalism and integrity and wish them another successful 20 years.

Sarah Jackson
Secretary of Finance

Fiscal highlights

July 1, 1994–June 30, 1995

Income

Gross revenue from ticket sales	\$114,101,301
Total income	\$114,101,301

Expenses

Prizes awarded	\$56,331,372
Commissions to Retailers	5,989,249
Operating costs	8,530,680
Total expenses	(\$70,851,301)

**Total profit from
FY '95 operations\$43,250,000**

New technology, a new location, and new and exciting games were the highlights of the Delaware Lottery's Fiscal Year 1995.

Our year-end sales of \$114.1 million set yet another record for the Delaware Lottery, and represents a 13-percent increase over FY '94 sales. Consequently, the prizes paid to players was also up by nearly six percent over last year to total \$56.3 million. And, I'm very proud to say our contribution to the state's General Fund increased by more than 26 percent over last year to total \$43.3 million.

During July, the Lottery improved communications with players by instituting a toll-free Player Information Line. In August, the Lottery further improved services to players and Retailers by moving our headquarters to a new facility. Our offices adjoin the new, full-service computer support center of our On-line vendor, Automated Wagering International. The move streamlined communications between our two organizations and speeded services to On-line Retailers as we implemented the new MasterLink™ advanced gaming system during Fiscal Year 1995.

MasterLink has enabled the Lottery to bring new games to market more quickly and run more and varied promotions for our players and Retailers. The new system also incorporates all of the Lottery's administrative business, making our entire organization more efficient.

The improvements implemented during Fiscal Year 1995 have put the Delaware Lottery in the forefront of innovation for lotteries nationwide and established it as a technological leader. As such, the Delaware Lottery is well-positioned to enter a new decade of generating income the state needs to help fund state services. I am proud and excited to be a part of it.

Wayne Lemons
Director, Delaware Lottery



Report to the people for Fiscal Year 1995

A 20-year winning tradition

Total gross revenue\$907,133,752
 Total profits for state services\$337,726,048
 Total prizes won by players\$471,320,032



The Delaware Lottery contributes 30 cents or more to the state's General Fund from every \$1 ticket it sells. During the last 20 years of Lottery operations, Lottery contributions to the General Fund have added up to more than \$337 million!

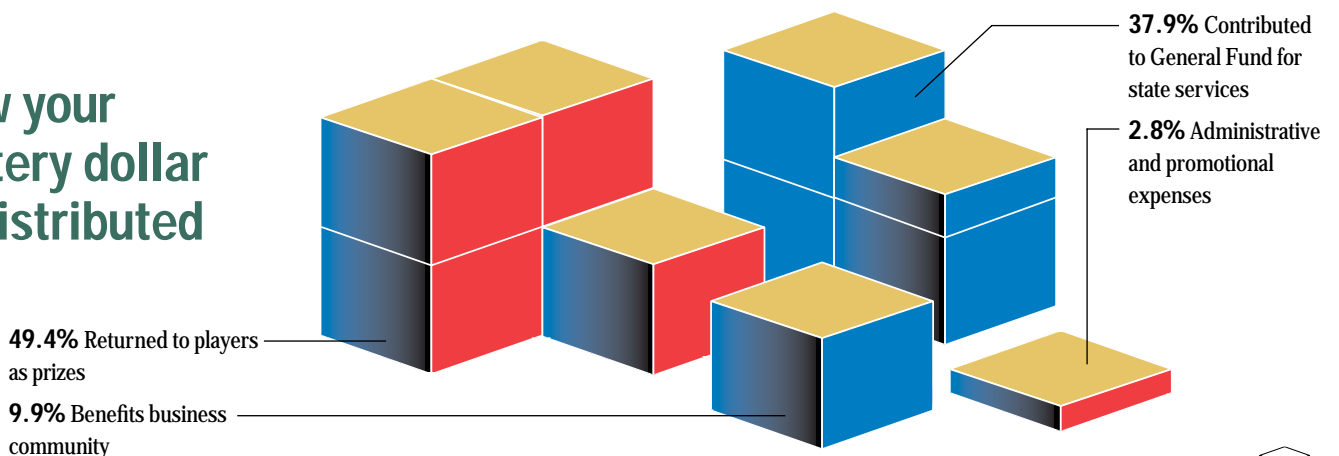
The Lottery's contribution makes everyone in Delaware a winner because the General Fund is the pool of dollars used to pay for the majority of state services, including:

- Public and higher education
- Environmental resources

- Health and social services
- Public safety
- Judicial and corrections
- Child, youth and family services

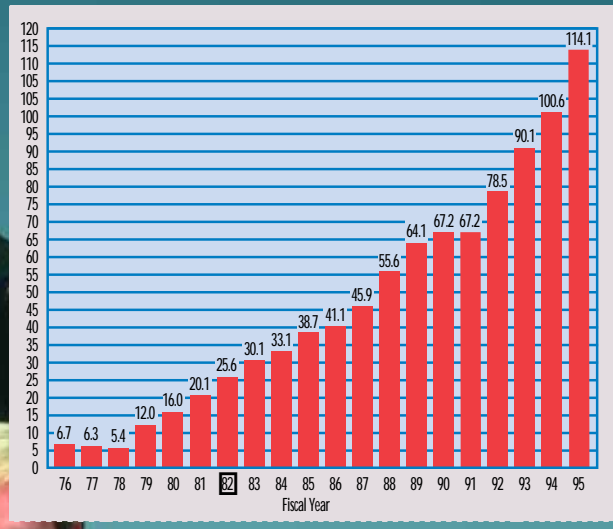
Delaware taxpayers win with the Lottery because the other sources of income for the General Fund are taxes. Without the Lottery's contribution, more taxes would be needed to provide the state services paid for with appropriations from the General Fund.

How your Lottery dollar is distributed

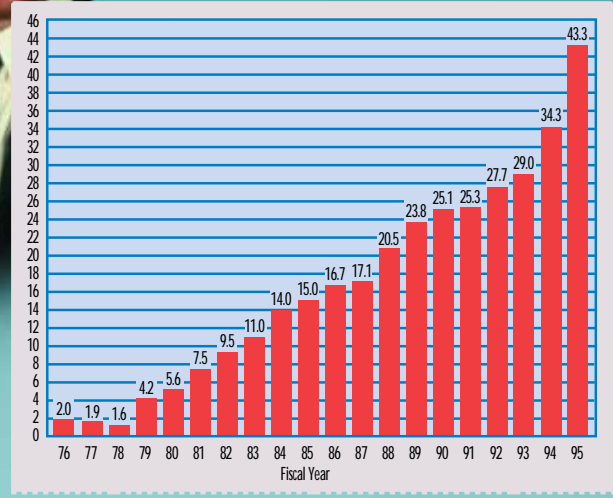




Gross Revenue
(in millions of dollars)



General Fund Contributions
(in millions of dollars)



20 Years...and Growing!

The Delaware Lottery is committed to remaining a viable source of revenue to help fund state services. It grows every year by responding to your desire for more exciting games.

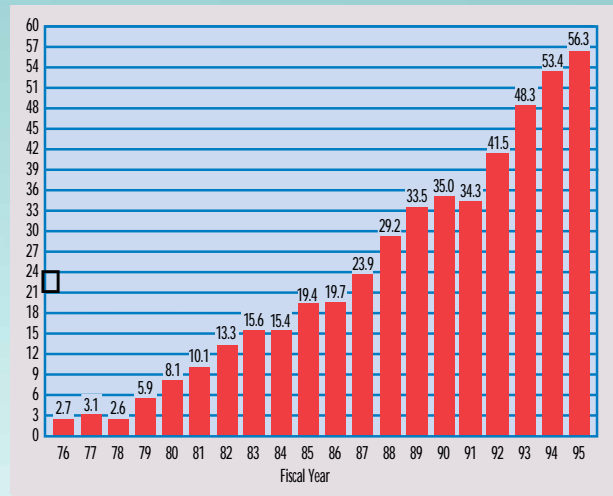
You, in turn, respond with greater participation. And, when you play, everybody wins!

As the following charts show, in recent years the Lottery—with the support of the public—has been able to increase sales, contribute more profits to the General Fund and award more prizes to players!

Prize Payouts by Game
(in millions of dollars)

	1994	1995
PLAY 3	\$18.5	\$16.9
PLAY 4	7.9	7.4
LOTTO	4.6	6.3
POWERBALL®	12.3	14.8
INSTANT	10.1	10.9
TOTALS	\$53.4	\$56.3

Prizes to Players
(in millions of dollars)



Financial Statements—The Delaware State Lottery

Years ended June 30, 1995 and 1994 with Report of Independent Auditors



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Report of Independent Auditors

Wayne Lemons
Director of The Delaware State Lottery

Sarah Jackson
Secretary of Finance
State of Delaware

We have audited the accompanying balance sheets of The Delaware State Lottery as of June 30, 1995 and 1994, and the related statements of revenues, expenses, and retained earnings and of cash flows for the years then ended. These financial statements are the responsibility of the Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In accordance with Government Auditing Standards, we have issued a report dated September 13, 1995 on our consideration of The Delaware State Lottery's internal control structure and a report dated September 13, 1995 on its compliance with laws and regulations.

September 13, 1995

Ernst & Young LLP

Balance Sheets

	Year ended June 30	
	1995	1994
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,242,209	\$ 3,001,901
Accounts receivable	2,609,733	1,148,382
Total current assets	5,851,942	4,150,283
Property and equipment, net	220,690	388,359
Total assets	\$ 6,072,632	\$ 4,538,642

Liabilities and retained earnings

Current liabilities:		
Estimated prizes liability	\$ 4,275,174	\$ 2,737,894
Accounts payable	198,691	231,243
Other accrued liabilities	187,032	157,770
Due to the State of Delaware	411,735	411,735
Total current liabilities	5,072,632	3,538,642
Retained earnings	1,000,000	1,000,000
Total liabilities and retained earnings	\$ 6,072,632	\$ 4,538,642

See accompanying notes.

Statements of Cash Flows

	Year ended June 30	
	1995	1994
Operating activities		
Net income	\$ 43,250,000	\$ 34,355,981
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	38,825	59,160
Loss on disposal of fixed assets	128,844	126,324
Changes in operating assets and liabilities:		
Accounts receivable	(1,461,351)	1,540,666
Accounts payable	(32,552)	(463,168)
Accrued liabilities	29,262	23,294
Estimated prizes liability	1,537,280	1,537,928
Cash provided by operating activities	43,490,308	37,180,185

Noncapital financing activities

Operating transfers to the State of Delaware	(43,250,000)	(35,628,100)
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Investing activities

Purchases of fixed assets	--	(123,980)
Increase in cash and cash equivalents	240,308	1,428,105
Cash and cash equivalents:		
Beginning of year	3,001,901	1,573,796
End of year	\$ 3,242,209	\$ 3,001,901

See accompanying notes.

Statements of Revenues, Expenses, and Retained Earnings

	Year ended June 30	
	1995	1994
Lottery revenues:		
On-line Games	\$ 94,554,851	\$ 83,135,011
Instant games	19,546,450	17,519,808
	114,101,301	100,654,819
Less:		
On-line game commissions	5,009,548	4,851,559
Instant game commissions	979,701	881,370
	5,989,249	5,732,929
Net Lottery revenues	108,112,052	94,921,890
Prize costs	56,331,372	53,408,779
Gross profit	51,780,680	41,513,111
Operating expenses:		
Vendor fees and costs	5,330,553	4,764,184
Advertising and promotions	1,749,820	1,446,980
Wages and related benefits	1,070,420	924,344
Other general and administrative	379,887	205,794
	8,530,680	7,341,302
Other income, net	--	184,172
Net income	43,250,000	34,355,981
Operating transfers to the State of Delaware		
	(43,250,000)	(34,355,981)
Retained earnings at beginning of year	1,000,000	1,000,000
Retained earnings at end of year	\$ 1,000,000	\$ 1,000,000

See accompanying notes.



See accompanying notes.

1 Summary of Significant Accounting Policies

Legislative Enactment

The Delaware State Lottery was established by Enabling Legislation passed on May 31, 1974 by the General Assembly of the State of Delaware under the authority of the Department of Finance, and under the supervision of a Director. The Director has the power and duty to establish rules for conducting games including the type and number of games, the price of tickets, the number and amounts of winning tickets, the manner of selecting winning tickets, manner of prize payment, frequency of drawings, locations and methods for the sale of tickets, procedures to licensing of Retailers, and all other functions related to the operation of the Lottery.

The Legislation provides that at least 45% of total revenues shall be used to pay prizes, operating expenses shall not exceed 20% of total revenue, and at least 30% of total revenue will be paid to the General Fund of the State of Delaware.

Basis of Presentation

The Lottery is considered a component unit of the State of Delaware financial reporting entity in which the Lottery is accounted for as a proprietary-type enterprise fund. In accordance with generally accepted accounting principles, the financial statements are prepared on the accrual basis of accounting which requires recognition of revenue when earned and expenses when incurred.

Revenue Recognition

Sales of On-line Lottery tickets, numbers games, LOTTO, and POWERBALL®, are made by licensed Retailers to the public with the use of computerized terminals. Revenue is recognized when the Retailers sell a ticket to the public.

Sales of Lottery Instant Games tickets to the public are made by licensed Lottery Retailers. Revenue for packs of tickets which have been distributed to Retailers is deemed earned when a specified percentage of the winning tickets of these packs has been redeemed, indicating the sale of substantially all of the tickets within the packs.

Prizes

The Lottery game prize structures are developed to comply with the minimum prize provisions of the Enabling Legislation. Prize expense for Instant Games is recognized based on an estimate of expense arising from the specific game prize structure as sales are recorded. Prize expense for the On-line Games is recognized on the basis of actual drawing results.

The prize structure for On-line Games includes prizes of specified amounts and jackpot prizes which are a percentage of the total ticket revenue. The Lottery awards these jackpot prizes in the form of either lump-sum payments (jackpots awarded subsequent to November 1993) or in equal installments for a period generally of 14 to 20 years (jackpots awarded prior to November 1993). (See Note 3.)

Cash and Cash Equivalents

All short-term highly liquid investments are classified as cash equivalents.

Accounts Receivable

Accounts receivable consist primarily of unsettled balances due to the Lottery from Retailers, principally grocery and convenience stores serving as the primary distribution channel for Lottery sales to the general public. No individual Retailer or agent accounts for a significant amount of the Lottery's sales or accounts receivable. The allowance for doubtful accounts was \$121,444 and \$0 at June 30, 1995 and 1994, respectively.

Office Leases

The Lottery leases its office facilities and certain office equipment under cancelable operating leases. Rental expense for the year ended June 30, 1995 and 1994 was \$10,946 and \$63,000, respectively.

2 Property and Equipment

Property and equipment are carried at cost. Depreciation is computed by the straight-line method over the estimated useful lives of the assets (5 to 7 years).

Property and equipment consist of the following:

	June 30	
	1995	1994
Furniture, equipment, and fixtures	\$ 305,155	\$ 490,575
Motor vehicles	101,741	101,741
	<u>406,896</u>	<u>592,316</u>
Less accumulated depreciation	186,206	203,957
Property and equipment, net	<u>\$ 220,690</u>	<u>\$ 388,359</u>

3 Deferred Prize Obligation

Prior to November 1993, the Lottery paid the winners of jackpots greater than \$150,000 in annual installments over periods which vary generally from 14 to 20 years.

The Lottery discharged its primary responsibility for such prizes by purchasing annuities from private insurance companies. The aggregate outstanding amount of deferred prize obligation for which annuities had been purchased as of June 30, 1995, is \$18,901,115. Neither the obligation nor the annuity investment is included on the balance sheet. The Lottery remains liable for future periodic payments of deferred prize obligations in the event that annuity issuers default on their obligations.

Subsequent to November 1993, the Lottery began paying the winners of jackpots in lump-sum payments.

4 Participation in the Multi-State Lottery

The Lottery is a member of the Multi-State Lottery Association, which operates On-line Games on behalf of participating state lotteries. Each MUSL member sells game tickets through its agents and makes weekly wire transfers to the MUSL in an amount equivalent to the member lottery's share of the estimated grand prize liability. Lesser prizes are paid directly to the winners by each member lottery. MUSL now operates the POWERBALL® game. The prize pool for POWERBALL® is 50% of each drawing period's sales. MUSL has placed 2% of each drawing period's sales, included as part of each MUSL member's prize liability, in prize reserve funds.

The MUSL has placed a \$32,000,000 cap on the prize reserve funds and once the prize reserve funds exceed this designated cap, the excess becomes part of the prize pool. The prize reserve funds serve as a contingency reserve to protect the MUSL from unforeseen prize liabilities and the money in this reserve fund is refundable to MUSL members if the MUSL disbands or if a member leaves the MUSL Board. Members leaving the MUSL must wait one year before receiving their remaining share, if any, of the prize reserve funds. At June 30, 1995, the prize reserve fund had a balance of \$31,089,716 of which the Lottery's share was \$529,269. The Lottery has charged amounts placed into the prize reserve funds to prize costs as the related sales have occurred.

A summary of revenues, included in On-line Games revenues, and related prize expenses associated with the Lottery's participation in MUSL follows:

	Year ended June 30	
	1995	1994
Revenues	\$ 31,329,055	\$ 24,271,864
Prize expenses	15,664,555	12,315,338

5 Operating Transfers and Other Transactions with the State of Delaware

As required, under its Enabling Legislation, retained earnings of the Lottery may not exceed \$1,000,000; therefore, the Lottery periodically transfers surplus funds to the State of Delaware in accordance with the Act. For the years ended June 30, 1995 and 1994, \$43,250,000 and \$35,628,100, respectively, was paid and transferred to the General Fund of the State of Delaware. At June 30, 1995 and 1994, an additional \$411,735 was due to the General Fund of the State of Delaware.

During 1995 and 1994, the Lottery incurred approximately \$290,571 and \$213,211, respectively, of payroll-related costs, including pension, health insurance, and other employee benefit costs, paid to various State of Delaware agencies responsible for the administration of benefit programs. All Lottery personnel are employees of the State and are covered by pension, health insurance, and other employee benefit programs administered by agencies of the State of Delaware.



Delaware Lottery Office

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