

CHANGE BRINGS OPPORTUNITY



DELAWARE STATE LOTTERY
2012 ANNUAL REPORT
FOR THE FISCAL YEAR ENDING
JUNE 30, 2012





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DELAWARE LOTTERY DIRECTOR



FROM THE DIRECTOR, VERNON KIRK:

At the Lottery we believe change brings opportunity. As evidenced in FY12, the Delaware Lottery experienced change on both an industry and an organizational level that was challenging, yet opened new doors of opportunity for conducting our business. And with each new opportunity, the Lottery saw a chance to grow as an organization and increase sales of our product lines to finance vital state services.

That is why I am pleased to announce that for the fiscal period ending June 30, 2012, the Lottery remained the fourth largest source of revenue for the State of Delaware, contributing more than \$269 million to the state's General Fund. This year's total brings the overall amount raised toward the state's General Fund to \$3.9 billion to date.

Perhaps the biggest change of all in FY12 was when the Lottery bid farewell to its former Director, Wayne Lemons, after 20 years of service. The Delaware Lottery remains ever grateful to Wayne for his commitment and dedication to growing the Lottery's business. For that, we give our beloved support and best wishes to Wayne as he begins a new chapter in his life.

A major initiative for the Delaware Lottery in FY12 was successfully supporting the Multi-State Lottery Association with the changes and enhancements to POWERBALL® as the game celebrated its 20th anniversary in January 2012. Moving from a \$1 to a \$2 price point required a large-scale marketing and media campaign, as well as a unified effort among state lotteries to reassure its players of the overall added benefit under this new form of POWERBALL.

Additionally, FY12 was a year of many firsts for the Delaware Lottery. We explored new avenues that transformed and expanded the way we communicate with and provide information to players. We launched our first smartphone application—m.delottery.com—to give players access to jackpots and winning numbers at the touch of their fingertips. The Lottery also joined the social media world in September when it launched its Facebook and Twitter pages.

You can see we are still growing, expanding and evolving. I invite you to take a look back on the Lottery's past year in the pages that follow and share in our many accomplishments. Your continued support, confidence and enthusiasm for the Lottery's brand and mission are critical in the years ahead. Everyone including the entire Lottery staff, its Retailers, government and business partners, and our players, is vital to our ongoing success and plays the important role of contributing to the state's General Fund for many necessary state services that support our local communities day in and day out.

As always, on behalf of all of the staff at the Delaware Lottery, I thank everyone who has played such an important role in our successes. We look forward to the opportunities that lie ahead.

A handwritten signature in blue ink that reads "Vernon Kirk".

VERNON KIRK
DIRECTOR OF THE DELAWARE LOTTERY



OUR MISSION

The Lottery exists, by law, to generate income to fund essential state services and to provide leadership and a corporate culture that encourages productive change in order to improve every aspect of the business.

The Lottery accomplishes this through an enhanced product portfolio offering and by contributing all profits from ticket sales, Video Lottery operations, as well as a portion of Sports Lottery and Table Games profits, to the state's General Fund.

WHERE THE MONEY GOES

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 — the pool of dollars that supports many critical state services. 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.



FY12 NUMBERS AT A GLANCE:

The Delaware Lottery ended its FY12 fiscal year on June 30, 2012, and remains the fourth largest source of revenue for the state.

For FY12, the Lottery has contributed...

- More than \$269 million to the General Fund:
 - \$200.3 million from Video Lottery
 - \$26.4 million from Table Games
 - \$40.5 million from Traditional Games
 - \$2.1 million from Sports Lottery
- Paid out prizes to more than 6 million winners!

SINCE 1975, THE LOTTERY HAS....

- Generated more than \$11.2 billion in revenue for the General Fund
- Paid out more than \$1.5 billion in cash and other prizes to winners of Traditional Lottery Games
- Contributed more than \$3.9 billion to the state of Delaware

FINANCIAL REPORTING AND GOVERNANCE:

The Delaware Lottery takes great pride in its reporting operations and its ability to maintain a superior level of accuracy and efficiency year-after-year when producing financial information. In addition to its reporting and auditing requirements as a State of Delaware agency, the Lottery office annually pursues the reporting performance review and attainment of “The Certificate of Achievement for Excellence in Financial Reporting” (CAFR) award, which represents a significant accomplishment by the government and its management.

To satisfy the CAFR program’s top-notch criteria, the CAFR is prepared at the end of each fiscal year under the primary authorship of the Lottery’s Fiscal Administrative Officer. Following its preparation, it is then judged by an impartial panel comprised of financial statement preparers, independent auditors, academics, and other finance professionals.

In September of FY12, the Government Finance Officers Association of the United States and Canada (GFOA) once again awarded the Delaware Lottery with the CAFR award. This marked the 13th consecutive year that the Delaware Lottery was recognized with this award – the highest award in the area of governmental accounting and financial reporting.

DELAWARE STATE LOTTERY

Balance Sheets June 30, 2012 and 2011

Assets	2012	2011
Current assets:		
Cash and cash equivalents	\$ 6,951,200	6,184,429
Accounts receivable, net of allowance of \$733,877 and \$733,877, respectively	10,508,174	5,415,057
Investments – restricted for payment of prize liabilities	273,125	666,625
Due from State of Delaware	<u>1,662,868</u>	<u>1,086,889</u>
Total current assets	<u>19,395,367</u>	<u>13,353,000</u>
Noncurrent assets:		
Capital assets, net	—	753
Investments – restricted for payment of prize liabilities	207,191	448,259
Deposit with Multi-State Lottery	<u>2,437,297</u>	<u>2,396,387</u>
Total noncurrent assets	<u>2,644,488</u>	<u>2,845,399</u>
Total assets	<u>\$ 22,039,855</u>	<u>16,198,399</u>
Liabilities and Net Assets		
Current liabilities:		
Prizes liability, including \$273,125 and \$666,625, respectively, of prize installment obligations	\$ 4,364,996	4,292,441
Accounts payable and accrued liabilities	6,229,439	4,678,765
Due to the State of Delaware	<u>5,579,050</u>	<u>1,719,679</u>
Total current liabilities	16,173,485	10,690,885
Noncurrent liabilities:		
Multi-State Lottery reserve	2,437,297	2,396,387
Prize installment obligations, noncurrent	207,191	448,259
OPEB liability	<u>2,221,882</u>	<u>1,662,868</u>
Total liabilities	<u>21,039,855</u>	<u>15,198,399</u>
Net assets:		
Invested in capital assets	—	753
Unrestricted	<u>1,000,000</u>	<u>999,247</u>
Total net assets	<u>1,000,000</u>	<u>1,000,000</u>
Total liabilities and net assets	<u>\$ 22,039,855</u>	<u>16,198,399</u>

DELAWARE STATE LOTTERY

Statements of Cash Flows Years ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Receipts from customers	\$ 709,210,164	729,305,754
Payments to vendors for goods and services	(43,178,056)	(43,326,353)
Payments to employees for services	(5,772,052)	(5,454,050)
Payments for prizes	(85,817,602)	(76,717,909)
Payments for commissions	(248,531,696)	(264,789,767)
Net cash provided by operating activities	325,910,758	339,017,675
Cash flows from noncapital financing activities:		
Transfers to the Delaware Standardbred Breeder's Program	(3,000,000)	(3,000,000)
Transfers to the Delaware Certified Thoroughbred Program	(1,000,000)	(1,000,000)
Transfers to the State of Delaware	(321,778,555)	(345,773,135)
Net cash used in noncapital financing activities	(325,778,555)	(349,773,135)
Cash flows from investing activity:		
Proceeds from maturity of investments	634,568	901,561
Net cash provided by investing activity	634,568	901,561
Net increase (decrease) in cash and cash equivalents	766,771	(9,853,899)
Cash and cash equivalents at beginning of year	6,184,429	16,038,328
Cash and cash equivalents at end of year	\$ 6,951,200	6,184,429
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 329,061,947	343,895,743
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	753	1,507
Changes in operating assets and liabilities:		
Accounts receivable, net	(5,093,117)	799,726
Deposit with Multi-State Lottery	(40,910)	(104,273)
Prizes liability	(168,513)	(871,814)
Accounts payable and accrued liabilities	2,150,598	(4,703,214)
Net cash provided by operating activities	\$ 325,910,758	339,017,675

DELAWARE STATE LOTTERY

Statements of Revenue, Expenses and Changes in Net Assets Years ended June 30, 2012 and 2011

	2012	2011
Revenue:		
Video lottery, net	\$ 475,729,991	499,457,285
Video lottery machine license fees	—	161,700
Video lottery expired jackpots and credit slips	327,050	371,830
Casino license fees	10,750,000	17,500,000
Sports lottery	17,846,827	12,910,308
Table games	74,963,837	74,165,548
Online games	88,973,520	83,082,950
Instant games	45,712,056	40,856,406
Total revenue	714,303,281	728,506,027
Cost of games:		
Video lottery commissions	190,984,854	201,430,519
Prize costs, net of reversions	85,649,089	75,846,095
Gaming vendor fees and costs	37,637,540	38,007,015
Online and instant games commissions	8,386,594	7,466,047
Sports lottery commissions	1,669,025	1,782,610
Table games commissions	49,551,096	49,023,428
Total cost of games	373,878,198	373,555,714
Gross profit	340,425,083	354,950,313
Operating expenses:		
Advertising and promotions	2,860,010	2,376,409
Payroll and related benefits	6,173,495	6,032,883
Other general and administrative	2,328,878	2,643,771
Depreciation expense	753	1,507
Total operating expenses	11,363,136	11,054,570
Operating income	329,061,947	343,895,743
Nonoperating expenses:		
Transfers to the Delaware Standardbred Breeder's Program	3,000,000	3,000,000
Transfers to the Delaware Certified Thoroughbred Program	1,000,000	1,000,000
Transfers to the State of Delaware	325,061,947	339,895,743
Change in net assets	—	—
Net assets at beginning of year	1,000,000	1,000,000
Net assets at end of year	\$ 1,000,000	1,000,000

A graphic of several interlocking puzzle pieces in a dark teal color, arranged in a grid pattern at the top of the page.

PRODUCT LINES:

**GAMES FOR ANY
WAY YOU LIKE TO PLAY**

FY12 PRODUCT HIGHLIGHT: THE NEW \$2 POWERBALL®

A WHOLE NEW POWERBALL®

Get Your Fun's Worth.



MORE MILLIONAIRES, BIGGER STARTING JACKPOTS, AND BETTER OVERALL ODDS:

In celebration of POWERBALL®'s 20th anniversary in 2012, the Multi-State Lottery Association redesigned the game to offer more value to its players. The new POWERBALL launched on January 25, 2012, with a bigger starting jackpot (\$40 million), better overall odds and a \$1 million Match-5 second prize. And to support the game enhancements, POWERBALL's price point changed from \$1 to \$2 per ticket.

The game change has resulted in huge jackpot swells and more millionaire winners. In February 2012, only one month after the change, the POWERBALL jackpot grew to \$310 million with a record cash value jackpot of \$193.4 million. The February prize was also ranked as the fifth largest POWERBALL annuity jackpot in the history of the game.



TRADITIONAL GAMES

Our Traditional Drawing Games offer a variety of play styles, payout scales, odds and price points for a wide audience appeal. Multi-state jackpot games like POWERBALL® and MEGA MILLIONS® offer players large jackpots while Delaware-only games such as PLAY 3/PLAY 4, and DELAWARE CASH 5® offer great odds and help to create more winners and drive more revenue locally. For FY12, Traditional Drawing Games proved to be a significant source of revenue, contributing more than \$40.5 million to the state's General Fund. Traditional Games combined produced a grand total of 3,040,196 winners in FY12.

As always, Instant Games remain extremely popular among players, accounting for a healthy portion of overall receipts that totaled \$45.7 million in sales for FY12. Additionally, Instant Games contributed \$13.7 million in total to the state's General Fund and the Lottery had more than six million winners from Traditional Games to date.



PLAY3®/PLAY4®
DELAWARE CASH 5®

MULTI-WIN LOTTO
INSTANT GAMES

VIDEO LOTTERY

In FY12, Video Lottery contributed \$200.3 million to the state's General Fund. There are over 6,700 Video Lottery machines operating in the State of Delaware. Delaware Park hosts more than 2,400 Video Lottery machines, Dover Downs hosts more than 2,500 and Harrington Raceway hosts over 1,800 Video Lottery machines.

And in this fiscal year, the Delaware Lottery had 16 patrons who won \$50,000 or more on one spin from a Video Lottery machine. Of those 16, three won \$100,000 or more.

SPORTS LOTTERY

In its third season, Delaware Sports Lottery wagering has accounted for more than 55,400 Delaware Lottery winners in FY12. The Delaware Lottery's relationship with the racinos generates additional revenue while drawing non-residents to the state and helping to defray the tax burden.

Sports Lottery also hit a major mark in FY12 when, for the first time in Delaware's Sports Lottery history, a 34-year-old man from Camden, NJ, beat the odds of 32,000:1 to win the \$100,000 Parlay Card.

TABLE GAMES

The Delaware Lottery works hand-in-hand with its racino and gaming Retailers to ensure that the best and latest table games are available to the residents of Delaware and surrounding states. The poker rooms offer a wide variety of games and some of the best tournaments and promotions on the east coast. Delaware Park hosted the Delaware Park Poker Classics, which had a combined prize pool of \$1 million. Dover Downs poker room also hosted multiple poker tournaments with prize pools ranging from \$50,000, to trips to Las Vegas and cruises to the Caribbean.

In addition to tournaments and promotions, Table Games also tend to have the largest single wins by patrons. In FY12, single player wins have ranged from \$60,000 to over \$100,000 and overall Table Games contributed more than \$26.4 million to the state's General Fund in FY12.



A graphic of several interlocking puzzle pieces in shades of blue and grey, arranged in a pattern that suggests a larger whole. The pieces are scattered across the top and right sides of the page.

RETAILERS: PARTNERING WITH THE DELAWARE BUSINESS COMMUNITY

Lottery Retailers are the backbone of our business operations and the Lottery strives 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. Their services not only help produce revenue for the state, but also provide jobs, income and partnerships in the local community that have a positive impact on keeping business thriving in Delaware.

Our Retailers also continue to be the vendors of fun and excitement, forging our valued player relationships through customer interface and engagement on the Lottery's behalf.

In FY12, the Lottery added 54 new licensed Retailers to its growing Retailer network and each year, the Lottery continues to gain interest from new and prospective Retailers.

RETAILER NETWORK AVAILABILITY AND ACCESSIBILITY

With more than 565 licensed Retailers throughout the state, our Retailers provide daily contact with players and the sale of Lottery tickets. From Kmart to Mike's Food Mart, 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.

RETAILER PROMOTIONS:

To show our support and appreciation of the valued service our Retailers provide, the Lottery offers many Retailer promotions and incentives throughout the year.

One of our most popular Retailer promotions is the XFingers Challenge. XFingers is designed to show support and appreciation for Lottery Retailers through a statewide friendly competition and to determine who among all licensed Delaware Lottery terminal operators can most adeptly operate lottery machines.

The final competition was held on May 3, 2012, at Dover's Modern Maturity Center. The competition was followed by a dinner and awards ceremony that celebrated and honored all participating XFingers Challenge competitors.



PLAYER ENGAGEMENT: CONNECTING TO THE COMMUNITY

From emerging technology to a grassroots approach, there are many ways in which the Lottery interacts and communicates with its players that appeal to both its core and prospective audiences. In FY12, the Delaware Lottery was challenged with adopting new tactics that would give the Lottery a more competitive edge and enable the Lottery to remain relevant in a modern retail world.

JOINING THE CONVERSATION: FACEBOOK AND TWITTER

In the face of emerging technology, the Lottery sought new ways to reach and begin building relationships with a digitally savvy audience. Therefore, in FY12, the Lottery launched its first social media pages on Facebook and Twitter.

The Lottery uses its social media pages to inform, educate and engage in conversations with its followers, who include current players and Retailers. Discussions range from Lottery products and prize winnings to players' weekend plans and Lottery-sponsored events.

To date, the Lottery has 800 Facebook 'Likes' and 232 Twitter 'Followers.' The numbers continue to grow as the Lottery continues to look for new and interesting content that will resonate with its social followers and for different ways to leverage social media.



GOING MOBILE: SMARTPHONE APPLICATION LAUNCH

To increase the availability of the information that directly influences buying behavior, such as jackpot levels and locations of licensed Retailers, the Lottery introduced its very first smartphone App—m.delottery.com—in September 2011. Lottery players now can check jackpot amounts, recent winning numbers, drawing times, and even find nearby Retailers and access the Players Club, right from their smartphone.

To support the launch of m.delottery.com, the Lottery initiated an advertising campaign that connected the App to its jackpot games—POWERBALL®, MEGA MILLIONS® and HOT LOTTO®. The campaign was designed to have a smart, tech-savvy, and energetic tone that would be both appealing and marketable to an increasingly mobile playerbase. The campaign was successful in calling attention to the Lottery smartphone App, resulting in over 4,500 site visits in the first month.



get the app at
m.delottery.com

JACKPOTS IN THE PALM OF YOUR HAND.



IN THE COMMUNITY: EVENTS & SPONSORSHIPS

In addition to generating income for the state's General Fund to support critical state services, the Delaware Lottery participates in a variety of events and sponsorships across the state that support our local communities. Events and sponsorships are also an opportunity for the Lottery to interact and engage with current and potential players on a more personal level.

Lastly, events and sponsorships serve the fundamental purpose of connecting the local community with our corporate and commercial partners in the places where they live and conduct business.

The Lottery sponsors more than 20 community events throughout the year, such as: Delaware State Fair, World Championship Punkin Chunkin, Wilmington Blue Rocks, and University of Delaware and Delaware State University Athletics.





PLAYER PROTECTION: 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 \$2.3 million in FY12 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 website 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.



A CLOSING CHAPTER: WAYNE LEMONS RETIREMENT

Since 1991, Wayne Lemons served as Director of the Delaware Lottery, and his dedication and commitment to growing the Delaware Lottery's business operations during his tenure is immeasurable.

Aspiring, forward thinking, and determined, Mr. Lemons took advantage of every opportunity and met challenges with the perseverance to overcome them and to progress forward.

Mr. Lemons saw the Lottery as a business rather than just a state agency. For that, the Delaware Lottery has grown substantially since its inception in 1975, giving more than \$3.9 billion to date to the state's General Fund, which helps finance much needed state services. Under his astute leadership and guidance, the Delaware Lottery reached many milestones, including becoming the first state to fully automate Lottery drawings (1998) and the second state to implement Video Lottery (1995).

A testament to his endeavors, Mr. Lemons was the only U.S. State Lottery Director to oversee four major product groups: Traditional Games, Video Lottery Games, Table Games and Sports Lottery. During his term as president of the Multi-State Lottery Association (MUSL), Mr. Lemons supervised the development of its first strategic plan. He was later elected to the Lottery Hall of Fame, and in September 2011, Mr. Lemons became the second recipient of the Lottery Industry Statesmen Award.

After 20 years of profession and management, he said goodbye to the Delaware Lottery and announced his retirement in September 2011. Mr. Lemons will use his retirement as an opportunity to get involved in his community by volunteering and working with various community organizations.

The Lottery is grateful to Mr. Lemons for his many years of hard work and supervision. We look forward to what lies ahead for both Mr. Lemons and the Delaware Lottery as we begin these new stages and continue to advance forward.

Thank you Wayne Lemons for 20 great years!





PASSING OF THE TORCH: VERNON A. KIRK NAMED DELAWARE LOTTERY DIRECTOR

Vernon A. Kirk was appointed Lottery Director in October 2011 and became the 6th Director in the Lottery's 37-year history.

Vernon has been with the Delaware Lottery since its startup in 1975, beginning as Administrative Assistant to the Director and serving in a variety of operational, financial and administrative management capacities prior to his appointment as Director.

In his 37 years at the Delaware Lottery, Vernon has been both a positive and strong force, helping to continually shape the Lottery's brand culture and redefine its goals. He has received many accolades during his tenure at the Lottery, including the Delaware Award for Excellence in State Service from Governor Jack Markell and Tributes from both chambers of the Delaware General Assembly for his leadership during the development and successful implementation of the state's ventures into Sports Wagering and Table Games.

As newly appointed Director, Vernon has been tasked with assisting the Lottery in meeting new business challenges, particularly focusing on the Lottery's evolution in a Web 2.0 and technology-based society. Vernon's philosophy and vision for the Delaware Lottery's future is to embrace change as a way of keeping the Lottery and its products fresh and relevant. Under his leadership, Vernon also intends to see that the great relationship between the Lottery, its retailers, vendors and business partners endures.

Regardless of the emerging changes ahead, Vernon emphasizes that the Lottery will remain dedicated and true to its core business values—making sure that its retailers maintain relevance and succeed in all that the Lottery does and continues to do.