

Delivering for Delaware

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DELAWARE
LOTTERY

Delivering for Delaware



The Lottery indeed delivers for all Delawareans. Lottery proceeds help educate our children, give a hand up to those in need, maintain our parks and provide other important public services that Delawareans expect from their government.

Each year, those who work for the Lottery strive to improve the way we do business. This year brought the legislative reauthorization of the Video Lottery enterprise, which has been a highly successful revenue producer for the state. The new legislation will deliver tens of millions of dollars in additional General Fund revenues over the next three years.

The Lottery also successfully delivered the latest technology to expand the range of games that are offered to those who choose to play. Advanced graphics have enabled the Lottery to bring you more interesting games such as the new and exciting “Run for the Money” simulated horse races. We invite you to come to the Lottery offices in Dover to watch our live drawing, or you can watch from home on WHY-TV 12/64.

We hope that you’ll help support the services Delaware’s government provides by playing the Lottery. But we also urge you to play responsibly and within your financial means. This year, we expanded the help available to those with gambling problems by providing the 1-800 help-line numbers on all Lottery products and Video Lottery terminals.

Each year brings new challenges for the Lottery, but I am confident that our state employees and private partners will continue to deliver for Delaware.

Sincerely,

A handwritten signature in cursive script that reads "John Carney".

John C. Carney, Jr.
Secretary of Finance



The 1998 numbers are in, and once again the Delaware Lottery is a big winner for all Delawareans.

Why? Because with every ticket sold, every traditional or Video Lottery game played, the Delaware Lottery is contributing substantially to the state’s General Fund. We’re proud to be generating millions of dollars each year to help pay for essential state services that would otherwise require additional taxes.

During the fiscal year ending June 30, 1998, the Delaware Lottery contributed \$125.4 million to the state’s General Fund—a 30.6 percent increase over its FY 1997 contribution. Families and communities across the First State are benefiting from these vital state services and programs, without shouldering the burden of an additional \$125.4 million in much-needed funds. The reality is that the Lottery is working hard for all of us in Delaware.

Along with our network of Lottery retailers and the three Video Lottery facilities, other Delawareans benefit from the business of the Lottery, including our employees, suppliers, vendors, and the local print and broadcast media that help us promote our games. It is a truly successful Delaware business venture.

Sincerely,

A handwritten signature in cursive script that reads "Wayne Lemons".

Wayne Lemons
Director, Delaware Lottery

Financial Summary

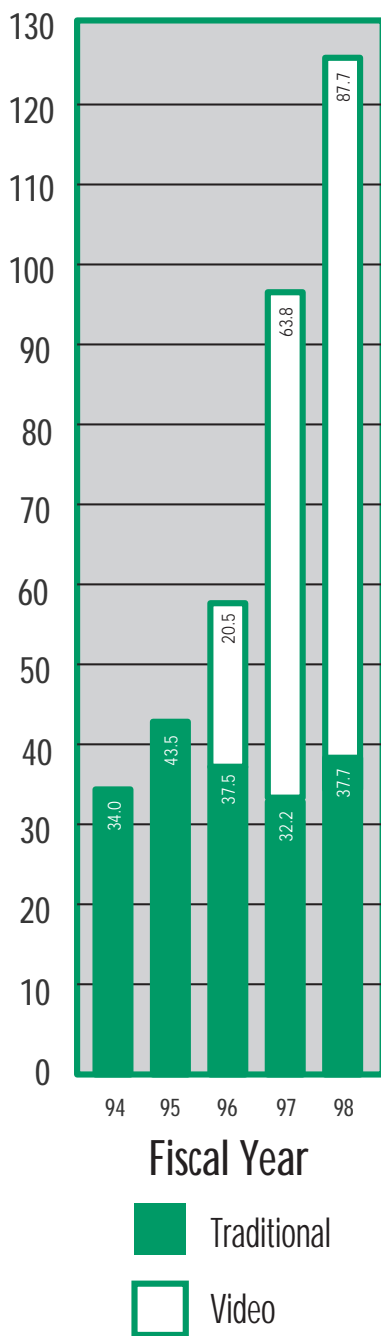
Since 1975 start of Lottery operations:

Total Gross Revenue \$1,902,933,733

Total Profits for State Services \$616,926,048

General Fund Contributions

(in millions of dollars)



Mission Statement

The Delaware Lottery's mission is to maximize revenue contributions to the state's General Fund, thereby helping to fund the delivery of state services to the people of Delaware through the marketing, sale and distribution of innovative, entertaining and secure Lottery products that ensure the public's confidence in the honesty and integrity of the games.

A history of delivering for Delaware

The Delaware Lottery was established by the state Legislature in 1975 as a means of generating revenue to supplement the state's General Fund without placing an additional tax burden on citizens.

Since its inception, the Lottery has grown in a steady and orderly manner, marketing a variety of games that offers players many chances to win hundreds, thousands or millions of dollars in prizes. Growing public support over the years has made the Lottery in Delaware one of the most successful in the nation.

New games, new drawing technologies and the start-up of Video Lottery operations at the state's three racetracks have made the Delaware Lottery more successful than many originally expected. But helping to pay for needed state services with the profits it generates has and continues to be the main purpose of the Delaware Lottery. In fulfilling this purpose, the Lottery has, since 1975, successfully generated a total of more than \$616.9 million for the General Fund. At the same time, the Lottery has returned millions of dollars in prizes to thousands of winning players.

As in previous years, this year's contribution to the General Fund and awarding of prizes more than met the minimum legislative requirements for distribution of Lottery revenue. In part, this is due to the continuing growth in Lottery revenues, but it also can be attributed to the good stewardship of funds used to manage the Lottery's operations, administration and promotion of its games.

The Delaware Lottery, during the past two decades, has continued to grow and evolve. The quality, security and quantity of its games have increased, and its commitment to technology includes the recent computer animation and randomization of our games. It is the goal of the Lottery to continue—with ongoing public support—"delivering for Delaware."

Delivering for the Delaware General Fund

The Lottery management, staff, retailers and suppliers are proud to be generating millions of dollars each year to help pay for essential state services that would otherwise require additional tax dollars.

During the fiscal year that ended June 30, 1998, the Lottery transferred to the General Fund a record total of \$125.4 million in revenue generated from the sale of Lottery tickets and profits from the Video Lottery. This represents a significant portion of the total state budget, making the Lottery the fourth-largest generator of revenue for the General Fund. This record contribution to the General Fund was a 30.6 percent increase over the Lottery's FY 1997 contribution.

Delivering for Delaware

Legislative allocations from the General Fund provide the funding for most of the state's agencies. Among them are:

The Department of Services for Children, Youth and Their Families,

which promotes positive change in the behavior of the children and families in its care. It offers various programs, including services for children with mental, emotional and/or substance abuse issues; child abuse intervention services; programs for preventing child abuse, dependency, neglect, juvenile delinquency, and drug and alcohol abuse; and services for delinquent youth. It also runs a Crisis Help hot line for child abuse and neglect.

The Department of Education, which partners with school districts and educational groups to see that the best educational practices are identified, funded and implemented throughout the state. The Department also ensures that public support for education is cultivated so that all students develop the ability to reason, exhibit good citizenship, and gain the knowledge and self-esteem necessary to become contributing members of society. The General Fund helps support both public and higher education in Delaware.

The Department of Natural Resources and Environmental Control,

which protects and manages the state's natural resources, provides outdoor recreation and educates citizens about conservation practices. Under its jurisdiction are the divisions of Soil and Water Conservation, Water Resources, Air and Waste Management, Fish and Wildlife, and Parks and Recreation.

The Department of Health and Social Services, which is the fifth-largest employer in the state. It offers a variety of community-based services, such as child support enforcement and services for the aged and adults with disabilities. Also among its 11 different divisions are the Medical Examiner's Office, the Division of Mental Retardation, the Division of Alcoholism and the Division of Public Health—the largest segment of the Department.

The Department of Public Safety, which includes several agencies concerned with public safety. They are the Delaware State Police, the Office of Highway Safety, the Motor Vehicle Division, the Capitol Police, Alcoholic Beverage Control, Boiler Safety, the Delaware Emergency Management Agency and the Division of Communications, which includes the administration of the 911 Emergency Reporting System.

Imagine how many individuals, families and communities across the First State are benefiting from the vital state services and programs that receive money from the General Fund. Now, try to imagine taxpayers shouldering the burden of an additional \$125.4 million that would be needed if it were not for the Lottery profits contributed to the General Fund. The reality is that the Lottery is delivering for all of us in Delaware.



The Delaware Lottery delivers for players

The Lottery offers players a wide selection of games to play for fun and entertainment. They include pick-your-own-numbers games with daily drawings, growing multimillion-dollar jackpot games with drawings several times a week, special theme games, numerous instant ticket games and the popular Video Lottery games at the three racetracks in the state.

All games give players a fair chance to win prizes that range from the cost of the game ticket to hundreds and thousands of dollars. Over the years, Delaware Lottery POWERBALL® players have won three multimillion-dollar jackpots and 129 prizes worth \$100,000 each. Also, Delaware Lottery players have won 19 Lotto game jackpots worth one million dollars or more.



Play Responsibly

If you or someone you know has a gambling problem, call Delaware Gambling Helpline.

1-888-850-8888

The Delaware Lottery delivers responsibly

Like other lotteries throughout the country, the Delaware Lottery is proactive in encouraging players to play the games responsibly. In addition to the money already channeled into the Department of Health and Social Services through the General Fund, the Lottery now also supports that Department's problem gambling programs. In 1998, that support amounted to more than \$864,500 in funding for those special programs.

What's more, the "Play Responsibly" message and the Delaware Gambling Helpline number (1-888-850-8888) appear on all printed Delaware Lottery materials, Video Lottery terminals and retailer ticket terminals, along with a statement (shown above) that encourages those who have a gambling problem, or those who know someone who does, to call.

At the Delaware Lottery, we believe no one benefits when they abuse something good. That's why we encourage players to keep their lottery playing in perspective and only play our games when they can afford to do so. After all, the Lottery games are a form of entertainment designed to raise funds to help pay for state services that otherwise would require funding with additional tax dollars.

So, when Delawareans play our games responsibly, we all win.

The Lottery delivers for the Delaware business community

The Delaware Lottery takes pride in being an integral part of the state's business community. Like any successful business, we rely heavily on our sales force. For the Delaware Lottery, that means a network of more than 450 retailers up and down the state. All sell Instant Game tickets, and more than 330 are equipped with lottery computer terminals needed to sell tickets for the on-line games. They "talk up" the games, promoting Lottery tickets as another high-quality product on their shelves. They also enjoy commissions from selling these tickets, plus the extra business that Lottery traffic brings to their stores.

Along with our Lottery Retailers, other Delawareans benefit from the business of the Lottery. They include our employees, suppliers, vendors, and the local print and broadcast media that help us promote our games.

The Lottery is a truly successful Delaware business venture.

Smart businesses don't stop with success. They strive to improve, to innovate. The Lottery's continuing evolution, including more animated drawings and new Video Lottery games, is a direct result of listening to the opinions of players and nonplayers. We gather these opinions periodically through extensive statewide market research surveys.



Delivering for Delaware

The Delaware Lottery delivers the bottom line

The Delaware Lottery's financial statements are audited by the firm Arthur Anderson, 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 the address listed on the back of this report to request a copy.

Gross Revenue

(in millions of dollars)



Statements of revenues, expenses and changes in retained earnings for the years ended June 30, 1998 and 1997

	1998	1997
Revenues:		
Video lottery	\$326,723,104	\$255,901,458
On-line games	102,282,469	82,959,789
Instant games	18,195,281	20,303,633
Other	193,726	326,752
Total revenues	\$447,394,580	\$359,491,632
Cost of games:		
Video lottery commissions	\$162,406,364	\$129,497,449
Prize costs, net of reversions	62,406,255	53,752,283
Gaming vendor fees and costs	45,098,452	38,203,429
On-line and instant games commissions	7,880,887	5,803,297
Total cost of games	277,791,958	227,256,458
Gross profit	\$169,602,622	\$132,235,174
Operating expenses:		
Advertising and promotions	\$2,588,926	\$2,245,760
Payroll and related benefits	1,288,853	1,250,019
Other general and administrative	1,215,984	930,150
Total operating expenses	\$5,093,763	\$4,425,929
Operating income	164,508,859	127,809,245
Operating transfers to the state of Delaware	164,508,859	127,809,245
Net income	—	—
Retained earnings, beginning of year	1,000,000	1,000,000
Retained earnings, end of year	\$1,000,000	\$1,000,000

Operating transfers to the state of Delaware as of June 30, 1998 and 1997

General Fund transferred	\$125,400,000	\$96,000,000
General Fund due to state	1,535,093	439,729
Prepaid transfer to General Fund	—	1,863,751
Department of Health and Social Services	864,462	657,704
Department of Agriculture	36,709,304	28,848,061
Total operating transfers to the state of Delaware	\$164,508,859	\$127,809,245

1998 1997

Balance sheets as of June 30, 1998 and 1997

Assets:

Cash	\$3,268,053	\$2,298,657
Accounts receivable, net of allowance	9,951,871	7,660,519
Investments	15,542,508	16,180,045
Prepaid expenses	243,572	—
Property and equipment, net	1,387,467	1,257,688
Deposit with Multi-State Lottery	1,540,835	1,463,947
Total assets	\$31,934,306	\$28,860,856

Liabilities:

Prizes liability, including \$15,542,508 and \$16,180,045 of prize installment obligation	\$20,411,028	\$20,136,862
Accounts payable and accrued liabilities	7,568,386	6,486,991
Due to the state of Delaware	2,954,892	1,237,003
Total liabilities	\$30,934,306	\$27,860,856

Retained earnings:

Total liabilities and retained earnings	1,000,000	1,000,000
	\$31,934,306	\$28,860,856



Statements of cash flows for the years ended June 30, 1998 and 1997

Cash flows from operating activities:

Operating income	\$164,508,859	\$127,809,245
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	180,341	106,495
Loss on disposal of fixed assets, net	66,547	—
Changes in operating assets and liabilities		
Increase in accounts receivable, net	(2,291,352)	(3,309,149)
Increase in deposit with Multi-State Lottery	(76,888)	(343,040)
Increase in prepaid expenses	(243,572)	—
Increase (decrease) in prizes liability	274,166	(1,207,461)
Increase in accounts payable and accrued liabilities	1,081,395	1,620,810
Increase in amount due to the state of Delaware	1,717,889	786,497
Net cash provided by operating activities	\$165,217,385	\$125,463,397

Cash flows from investing activities:

Purchases of property and equipment	(376,667)	(1,188,410)
Proceeds from maturity of investments	637,537	1,350,788
Net cash provided by investing activities	260,870	162,378

Cash flows from noncapital financing activities:

Operating transfers to the state of Delaware	(164,508,859)	(127,809,245)
Decrease in prepayment to the state of Delaware General Fund	—	2,230,295
Net cash used in noncapital financing activities	(164,508,859)	(125,578,950)

Net increase in cash

969,396 46,825

Cash, beginning of year

2,298,657 2,251,832

Cash, end of year

\$3,268,053 **\$2,298,657**



The Delaware Lottery Games

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

Play 3 and Play 4

All Cash Lotto

Instant Games

Run for the Money

POWERBALL®

Video Lottery

Player Information Line

For winning numbers and other Delaware Lottery information, call:

In Delaware: 1-800-338-6200

From out-of-state: 302-736-1436

Delaware Lottery Office

McKee Business Park

1575 McKee Road, Suite 102

Dover, Delaware 19904

302-739-5291

Internet Web site: www.state.de.us/lottery