
THE DELAWARE LOTTERY

2 0 0 3 A N N U A L R E P O R T

FOR THE FISCAL YEAR ENDING JUNE 30, 2003





PLAYING A VITAL ROLE IN THE STATE ECONOMY

During the fiscal year ending June 30, 2003, the Delaware Lottery contributed \$213 million to the state's General Fund, positioning the Lottery as the fourth largest source of revenue for the state. Since 1975, the Lottery has:

- Generated nearly \$5 billion in revenue
- Paid out more than \$933 million in cash and other prizes to winners of traditional lottery games
- Contributed more than \$1.6 billion to the State of Delaware

FUNDING ESSENTIAL STATE SERVICES

By law, the Delaware Lottery exists to generate income to fund essential state services. The Lottery accomplishes this by contributing nearly one-third of its sales revenue to the State 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 aegis of the State Department of Finance. The Legislature allocates the General Fund, with the governor's approval, in support of state services including education; health and social services; public safety; judicial and correc-

tions; and various children, youth, and family services. In addition to the Lottery, other sources of income for the General Fund are state taxes, franchise taxes, gross receipts taxes, public utilities taxes, and cigarette taxes. Without the Lottery's contribution to the General Fund, more taxes would be required to fund the state services upon which we all rely. Therefore, Lottery revenue benefits everyone who lives in, works in, or visits Delaware.

PROMOTING RESPONSIBLE PLAY

The Lottery recognizes the need to balance its legal responsibilities with its legislative mandate. This is achieved by its consistent use of "Play Responsibly" messages, in addition to the toll-free Delaware Gambling Helpline telephone number, in advertising and other communications materials. These messages direct people seeking help for problems with gambling to the appropriate resources. The Lottery contributed nearly \$1.5 million in fiscal year 2003 to help fund gambling-related programs offered by the Department of Health and Social Services. Furthermore, the Lottery supports laws that restrict use and marketing of its products to players 18 years of age or older. Through its ongoing public relations programs, the Lottery regularly encourages players (especially when jackpots are high) to play responsibly and to avoid spending more than they can afford on tickets.

SUPPORTING SMALL BUSINESS

The Lottery supports the small business community in Delaware, from which its network of licensed Lottery retailers is primarily drawn. This network consists of nearly 500 retailers throughout the state who are responsible for daily contact with players and the sale of Lottery tickets. Local economies benefit from the partnership between the Lottery and the network via sales incentives offered to retailers and commission bonuses awarded to those retailers who sell winning tickets. The Lottery also supports its retailer network via a comprehensive signage program, as well as other in-store merchandising and training materials. During fiscal 2003, the Delaware Lottery developed a new central system; installed new, state-of-the-art lottery terminals at all retailer locations; and executed a comprehensive communications and training plan for the entire retailer network.

REJUVENATING HORSE RACING

Video Lottery provides a source of 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

1995, and Harrington Raceway began Video Lottery operations in August 1996. At the end of fiscal year 2003, legislation passed to enable continued expansion at all three tracks. As a result of new contractual agreements in fiscal 2003, gaming vendors initiated programs to replace and upgrade many of their existing Video Lottery terminals. These replacements and upgrades, well under way by the end of fiscal 2003, are designed to help Delaware's Video Lottery maintain its position as one of the most successful in the United States on a net-proceeds-per-machine basis.

ACHIEVING OPERATIONAL EXCELLENCE

During fiscal year 2003, the Lottery continued the organization-wide quality improvement program that was initiated in fiscal year 2000. As a result of its continuing quality initiatives, the Delaware State Lottery was presented with the prestigious 2002 Delaware Quality Merit Award. In a ceremony held on January 16, 2003, the Lottery was honored by Governor Ruth Ann Minner and Accolade Alliance, LLC, a Delaware nonprofit group that encourages organizational achievement. The Award of Merit acknowledges organizations that demonstrate significant progress in their approach and deployment of quality systems. The award also recognizes organizations for the implementation of quality standards resulting in improved customer satisfaction and increased efficiency.



Delaware State Lottery

*Statement of Revenue, Expenses, and Change in Net Assets For the years ending June 30, 2003, and June 30, 2002

	<u>2003</u>	<u>2002</u>
Revenue:		
Video Lottery, net	\$ 525,664,429	\$ 556,802,325
On-line games	80,062,069	96,173,056
Instant games	22,337,502	21,043,776
Other	—	29,635
Total revenue	<u>628,064,000</u>	<u>674,048,792</u>
Cost of games:		
Video Lottery commissions	254,957,699	269,661,454
Prize costs, net of reversions	52,745,393	59,181,019
Gaming vendor fees and costs	33,769,601	36,506,978
On-line and instant games commissions	5,979,120	7,438,415
Sales aids	13,066	—
Total cost of games	<u>347,464,879</u>	<u>372,787,866</u>
Gross profit	<u>280,599,121</u>	<u>301,260,926</u>
Operating expenses:		
Advertising and promotions	2,414,136	2,507,583
Payroll and related benefits	1,416,642	1,547,673
Other general and administrative	2,544,776	3,240,149
Total operating expenses	<u>6,375,554</u>	<u>7,295,405</u>
Operating income	<u>274,223,567</u>	293,965,521
Nonoperating expenses:		
Contributions to the Delaware Standardbred Breeder's Program	2,000,000	2,000,000
Contributions to the State of Delaware	271,822,627	292,406,204
Change in net assets	<u>400,940</u>	<u>(440,683)</u>
Net assets, beginning of year	<u>500,000</u>	<u>940,683</u>
Net assets, end of year	<u>\$ 900,940</u>	<u>\$ 500,000</u>



Delaware State Lottery

***Balance Sheet**
June 30, 2003, and June 30, 2002

	<u>2003</u>	<u>2002</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,613,211	\$ 1,978,893
Accounts receivable, net of allowance of \$679,229 and \$655,870, respectively	13,638,057	12,867,267
Investments	2,615,760	2,611,585
Prepaid expenses	425,346	265,966
Total current assets	<u>\$ 21,292,374</u>	<u>\$ 17,723,711</u>
Capital assets, net	384,990	664,117
Investments	12,324,710	13,914,815
Deposit with Multi-State Lottery	1,794,979	1,738,612
Total assets	<u><u>\$ 35,797,053</u></u>	<u><u>\$ 34,041,255</u></u>
Liabilities and net assets		
Current liabilities:		
Prizes liability, including \$2,615,760 and \$2,611,585, respectively, of prize installment obligations	\$ 11,873,190	\$ 7,949,693
Accounts payable and accrued liabilities	9,326,933	8,938,685
Due to the State of Delaware	1,371,280	2,738,062
Total current liabilities	<u>22,571,403</u>	<u>19,626,440</u>
Prize installment, obligations, noncurrent	<u>12,324,710</u>	<u>13,914,815</u>
Total liabilities	<u><u>34,896,113</u></u>	<u><u>33,541,255</u></u>
Net assets:		
Investment in capital assets	384,990	664,117
Unrestricted	515,950	(164,117)
Total net assets	<u>900,940</u>	<u>500,000</u>
Total liabilities and net assets	<u><u>\$ 35,797,053</u></u>	<u><u>\$ 34,041,255</u></u>



Delaware State Lottery

*Statement of Cash Flows For the years ending June 30, 2003, and June 30, 2002

	<u>2003</u>	<u>2002</u>
Operating activities:		
Receipts from customers	\$ 627,293,209	\$ 671,434,685
Other operating receipts	—	29,635
Payments to vendors for goods and services	(38,227,441)	(42,188,713)
Payments to employees for services	(1,452,898)	(1,558,790)
Payments for prizes	(51,564,941)	(60,464,940)
Payments for commissions	(260,954,560)	(275,930,337)
Net cash from operating activities	<u>275,093,369</u>	<u>291,321,540</u>
Capital financing activities:		
Purchase of property and equipment	—	(15,067)
Net cash from capital financing activities	<u>—</u>	<u>(15,067)</u>
Noncapital financing activities:		
Contributions to the Delaware Standardbred Breeder's Program	(2,000,000)	(2,000,000)
Contributions to the State of Delaware	(273,189,407)	(292,956,040)
Net cash from noncapital financing activities	<u>(275,189,407)</u>	<u>(294,956,040)</u>
Investing activities:		
Proceeds from maturity of investments	2,730,356	2,743,358
Net cash from investing activities	<u>2,730,356</u>	<u>2,743,358</u>
Net increase (decrease) in cash and cash equivalents	2,634,318	(906,209)
Cash and cash equivalents, beginning of year	1,978,893	2,885,102
Cash and cash equivalents, end of year	<u>\$ 4,613,211</u>	<u>\$ 1,978,893</u>



Delaware State Lottery

*Statement of Cash Flows For the years ending June 30, 2003, and June 30, 2002 (continued)

	<u>2003</u>	<u>2002</u>
Reconciliation of operating income to net cash from operating activities:		
Operating income	\$ 274,223,567	\$ 293,965,521
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation expense	180,988	190,563
Loss on disposal of equipment	98,139	—
Effect from changes in operating assets and liabilities:		
Accounts receivable, net	(770,790)	(2,584,472)
Deposit with Multi-State Lottery	(56,367)	(27,345)
Prepaid expenses	(159,380)	(72,349)
Prizes liability	1,188,964	(1,283,921)
Accounts payable and accrued liabilities	388,248	1,133,543
Net cash provided by operating activities	<u>\$ 275,093,369</u>	<u>\$ 291,321,540</u>

*The Delaware Lottery's financial statements are audited by the firm Ernst & Young 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, Delaware, 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:

PLAY 3 and PLAY 4

LOTTO

Instant Games

POWERBALL® with Power Play®

Video Lottery

PLAYER INFORMATION LINE

For winning numbers and other Delaware Lottery information:

Call

1-800-338-6200 in Delaware

302-736-1436 out of state

Or visit

delottery.com

Delaware Lottery Office

McKee Business Park

1575 McKee Road, Suite 102

Dover, Delaware 19904

302-739-5291

Play Responsibly

If you or someone you know has a gambling problem, call Delaware Gambling Helpline.
1-888-850-8888

It's The Law

You must be 18 years of age or older to purchase tickets for Delaware Lottery games.