

THE DELAWARE LOTTERY

2004

A N N U A L R E P O R T

FOR THE FISCAL YEAR ENDING JUNE 30, 2004



PLAYING A VITAL ROLE IN THE STATE ECONOMY

During the fiscal year ending June 30, 2004, the Delaware Lottery contributed \$222 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 nearly \$5.5 billion in revenue
- Paid out more than \$1,013 million in cash and other prizes to winners of traditional lottery games
- Contributed more than \$1.8 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 corrections; and various child, 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 2004 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 2004, the Delaware Lottery developed a new in-store system to help improve retail sales of Instant Game tickets at all price points, a comprehensive signage program to support online games and Delaware Lottery winners, and training and support on an ongoing basis.

REJUVENATING HORSE RACING

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, 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 were completed in fiscal year 2004 and continue 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. Delaware's Video Lottery has paid more than \$40 million in cash and other prizes since its inception in 1995.



DELAWARE STATE LOTTERY***STATEMENT OF REVENUE, EXPENSES, AND CHANGE IN NET ASSETS
FOR THE YEARS ENDING JUNE 30, 2004, AND JUNE 30, 2003**

	<u>2004</u>	<u>2003</u>
Revenue:		
Video Lottery, net	\$ 532,312,673	\$ 525,664,429
On-line games, net	83,600,787	80,062,069
Instant games, net	25,011,807	22,337,502
Total revenue	<u>640,925,267</u>	<u>628,064,000</u>
Cost of games:		
Video Lottery commissions	254,937,728	254,957,699
Prize costs, net of reversions	53,190,946	52,745,393
Gaming vendor fees and costs	36,626,439	33,769,601
On-line and instant games commissions	6,600,986	5,979,120
Sales aids	28,132	13,066
Total cost of games	<u>351,384,231</u>	<u>347,464,879</u>
Gross profit	<u>289,541,036</u>	<u>280,599,121</u>
Operating expenses:		
Advertising and promotions	2,499,704	2,414,136
Payroll and related benefits	1,431,071	1,416,642
Other general and administrative	1,640,032	2,265,649
Depreciation expense	55,437	180,988
Total operating expense	<u>5,626,244</u>	<u>6,277,415</u>
Operating income	<u>283,914,792</u>	<u>274,321,706</u>
Nonoperating expenses:		
Contributions to the Delaware Standardbred Breeder's Program	3,000,000	2,000,000
Contributions to the State of Delaware	281,188,496	271,822,627
Loss on disposal of fixed assets	—	98,139
Change in net assets	<u>(273,704)</u>	<u>400,940</u>
Net assets at beginning of year	<u>900,940</u>	<u>500,000</u>
Net assets at end of year	<u>\$ 627,236</u>	<u>\$ 900,940</u>



DELAWARE STATE LOTTERY***COMPARATIVE BALANCE SHEET
FOR THE YEARS ENDING JUNE 30, 2004, AND JUNE 30, 2003**

	<u>2004</u>	<u>2003</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 10,848,294	\$ 4,613,211
Accounts receivable, net of allowance of \$679,229 and \$679,229, respectively	4,538,776	13,638,057
Investments—restricted for payment of prize liabilities	2,468,373	2,615,760
Prepaid expenses	422,702	425,346
Total current assets	<u>\$ 18,278,145</u>	<u>\$ 21,292,374</u>
Capital assets, net	329,553	384,990
Investments—restricted for payment of prize liabilities	9,317,557	12,324,710
Deposit with Multi-State Lottery	1,717,955	1,794,979
Total assets	<u><u>\$ 29,643,210</u></u>	<u><u>\$ 35,797,053</u></u>
Liabilities and net assets		
Current liabilities:		
Prizes liability, including \$2,468,373 and \$2,615,760, respectively, of prize installment obligations	\$ 7,780,222	\$ 11,873,190
Accounts payable and accrued liabilities	10,195,629	9,326,933
Due to the State of Delaware	1,722,566	1,371,280
Total current liabilities	<u>19,698,417</u>	<u>22,571,403</u>
Prize installment obligations, noncurrent	9,317,557	12,324,710
Total liabilities	<u>29,015,974</u>	<u>34,896,113</u>
Net assets:		
Invested in capital assets	329,553	384,990
Unrestricted	297,683	515,950
Total net assets	<u>627,236</u>	<u>900,940</u>
Total liabilities and net assets	<u><u>\$ 29,643,210</u></u>	<u><u>\$ 35,797,053</u></u>

DELAWARE STATE LOTTERY

*STATEMENTS OF CASH FLOWS FOR THE YEARS ENDING JUNE 30, 2004, AND JUNE 30, 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Receipts from customers	\$ 650,024,548	\$ 627,293,209
Payments to vendors for goods and services	(41,466,571)	(38,227,441)
Payments to employees for services	(1,441,478)	(1,452,898)
Payments for prizes	(60,291,067)	(51,564,941)
Payments for commissions	(259,907,677)	(260,954,560)
Net cash provided by operating activities	<u>286,917,755</u>	<u>275,093,369</u>
Cash flows from noncapital financing activities:		
Contributions to the Delaware Standardbred Breeder's Program	(3,000,000)	(2,000,000)
Contributions to the State of Delaware	(280,837,212)	(273,189,407)
Net cash used in noncapital financing activities	<u>(283,837,212)</u>	<u>(275,189,407)</u>
Cash flows from investing activities:		
Proceeds from maturity of investments	3,154,540	2,730,356
Net cash provided by investing activities	<u>3,154,540</u>	<u>2,730,356</u>
Net increase in cash and cash equivalents	6,235,083	2,634,318
Cash and cash equivalents at beginning of year	4,613,211	1,978,893
Cash and cash equivalents at end of year	<u>\$ 10,848,294</u>	<u>\$ 4,613,211</u>
Reconciliation of operating income to net cash from operating activities:		
Operating income	\$ 283,914,792	\$ 274,321,706
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation expense	55,436	180,988
Effect from changes in operating assets and liabilities:		
Accounts receivable, net	9,099,281	(770,790)
Deposit with Multi-State Lottery	77,024	(56,367)
Prepaid expenses	2,644	(159,380)
Prizes liability	(7,100,121)	1,188,964
Accounts payable and accrued liabilities	868,699	388,248
Net cash provided by operating activities	<u>\$ 286,917,755</u>	<u>\$ 275,093,369</u>
Supplemental cash flow information:		
Loss on disposal of fixed assets	<u>\$ —</u>	<u>\$ 98,139</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
MULTI-WIN 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.

