

T H E D E L A W A R E L O T T E R Y

2006 *Annual Report*

2006

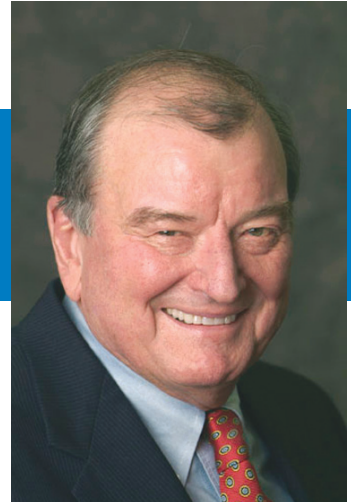


For the fiscal year ending June 30, 2006



From the Director, Wayne Lemons

This past year, the Delaware Lottery celebrated a very significant milestone - our 30th Anniversary. It was an exciting time for all who contributed to the success of the Delaware Lottery during its 2006 fiscal year.



The Delaware Lottery has come a long way in the past thirty years. In 1976, the Lottery's inaugural year, ticket sales for the first Delaware Lottery game reached \$6.7 million, which generated a \$2 million contribution to the State's General Fund. In fiscal year 2006, the activities of the Delaware Lottery, its vendors, and its partners in the business community generated a \$248.8 million contribution to the State's General Fund. This year's contribution raises the all-time General Fund contribution from the Lottery to over \$2.3 billion!

While the majority of Lottery revenue is returned to players as prizes, the Lottery is proud to continue its achievement of fulfilling its mission of generating revenue for the State. By doing so, the Lottery helps to support all State services and offsets a significant portion of the tax burden of Delaware's citizens.

We look forward to continuing our successes this year and, as always, we will be counting on the Delaware business community and our partners to help us reach new heights in sales and service in our changing market.

Here's to another thirty years of success!

Wayne Lemons
Director of The Delaware Lottery



Revenue - Year at a glance.

During the fiscal year ending June 30, 2006, the Delaware Lottery contributed \$248.8 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 \$6.9 billion in revenue**
- **Paid out more than \$1.1 billion in cash and other prizes to winners of traditional lottery games**
- **Contributed more than \$2.3 billion to the State of Delaware**

General Fund - Giving Back

The Lottery exists, by law, to generate income to fund essential state services. Unlike some states where lottery revenue is earmarked for specific government projects, in Delaware, all Lottery net proceeds are contributed to the State's General Fund. This government funding method allows the Governor, the Legislature, and the State Budget Office the ability to allocate funds each year to State services that are most needed at that time.

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 in support of state services. State services that benefit from the General Fund include education; 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 receipts 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.

The Lottery also helps fund programs offered by the state's Department of Health and Social Services for problem gamblers.

In all, at least 30 percent of Lottery revenue goes toward the General Fund helping all Delawareans. In 2006, Lottery proceeds accounted for \$248.8 million of the State budget, or more than eight percent of the 2006 budget.



Lottery Retailer Network – What makes us tick.

The Lottery supports its mission to maximize revenue contributions to the state's General Fund through the marketing, sale and distribution of innovative, entertaining and secure lottery products through its network of licensed retailers. These products include popular games such as Powerball, Multi-win Lotto, Play 3, Play 4 and Instant Games. The network consists of nearly 500 retailers throughout the state who are responsible for daily contact with players and the sale of Lottery tickets.

The economic wealth of local communities benefits from the Lottery's relationship with local businesses licensed to sell lottery tickets. The Lottery achieves this by offering sales incentives to retailers and commission bonuses to retailers who sell winning tickets. The Lottery also supports retailers by providing signs and other in-store merchandising and training materials.

Video Lottery Venues – Off to the Races.

Video Lottery provides a source of business and revenue needed to support legislative efforts to rejuvenate the state's horseracing 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. Delaware's Video Lottery is one of the most successful in the United States in a net-proceeds-per-machine basis.

A bright future – Building a better Delaware.

The Lottery has developed a strategic plan in support of its mission to maximize contributions to the state's General Fund. The plan will aim to increase sales and revenue contribution by expanding Lottery products (through the introduction of new games and new types of games), Lottery markets, and its distribution channels with the addition of new Retailers and types of distribution. The Lottery will continue to evolve its products through the development of innovative and entertaining products that appeal to both existing and potential Delaware Lottery players.



Delaware State Lottery

*Statements of Revenue, Expenses, and Change in Net Assets For the years ending June 30, 2006, and June 30, 2005

	<u>2006</u>	<u>2005</u>
Revenue:		
Video Lottery, net	\$603,501,083	\$575,234,109
On-line games	93,137,268	85,361,356
Instant games	<u>31,354,597</u>	<u>28,695,737</u>
Total revenue	<u>727,992,948</u>	<u>689,291,202</u>
Cost of games:		
Video Lottery commissions	287,527,716	274,662,888
Prize costs, net of reversions	64,878,620	59,829,996
Gaming vendor fees and costs	40,835,730	39,308,123
On-line and instant games commissions	8,042,530	7,062,069
Sales aids	<u>24,243</u>	<u>8,895</u>
Total cost of games	<u>401,308,839</u>	<u>380,871,971</u>
Gross profit	<u>326,684,109</u>	<u>308,419,231</u>
Operating expenses:		
Advertising and promotions	2,408,790	2,517,481
Payroll and related benefits	1,647,545	1,569,045
Other general and administrative	3,502,066	2,974,011
Depreciation expense	<u>130,362</u>	<u>130,361</u>
Total operating expenses	<u>7,688,763</u>	<u>7,190,898</u>
Operating income	318,995,346	301,228,333
Nonoperating expenses:		
Contributions to the Delaware Standardbred Breeder's Program	3,000,000	3,000,000
Contributions to the State of Delaware	<u>315,985,699</u>	<u>297,921,666</u>
Change in net assets	9,647	306,667
Net assets at beginning of year	<u>933,903</u>	<u>627,236</u>
Net assets at end of year	<u>\$ 943,550</u>	<u>\$ 933,903</u>



Delaware State Lottery

*Comparative Balance Sheets

For the years ending June 30, 2006, and June 30, 2005

Assets	<u>2006</u>	<u>2005</u>
Current assets:		
Cash and cash equivalents	\$ 6,122,398	\$ 5,803,835
Accounts receivable, net of allowance of \$726,248 and \$705,122, respectively	8,723,164	6,443,582
Investments – restricted for payment of prize liabilities	2,232,690	2,456,758
Prepaid expenses	<u>40,280</u>	<u>488,514</u>
Total current assets	17,118,532	15,192,689
Capital assets, net	68,830	199,192
Investments-restricted for payment of prize liabilities	6,223,034	7,394,490
Deposit with Multi-State Lottery	<u>1,898,623</u>	<u>1,700,747</u>
Total noncurrent assets	<u>8,190,487</u>	<u>9,294,429</u>
Total assets	<u>\$ 25,309,019</u>	<u>\$ 24,487,118</u>
Liabilities and net assets		
Current liabilities:		
Prizes liability, including \$2,232,690 and \$2,456,758, respectively, of prize installment obligations	\$ 6,309,755	\$ 5,540,534
Accounts payable and accrued liabilities	5,811,428	4,532,331
Due to the State of Delaware	<u>4,122,629</u>	<u>4,385,113</u>
Total current liabilities	16,243,812	14,457,978
Multi-State Lottery reserve	1,898,623	1,700,747
Prize installment obligations, noncurrent	<u>6,223,034</u>	<u>7,394,490</u>
Total liabilities	<u>24,365,469</u>	<u>23,553,215</u>
Net assets:		
Invested in capital assets	68,830	199,192
Unrestricted	<u>874,720</u>	<u>734,711</u>
Total net assets	<u>943,550</u>	<u>933,903</u>
Total liabilities and net assets	<u>\$ 25,309,019</u>	<u>\$ 24,487,118</u>



Delaware State Lottery

*Statements of Cash Flows For the years ending June 30, 2006, and June 30, 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Receipts from customers	\$ 725,713,366	\$ 687,386,396
Payments to vendors for goods and services	(46,081,091)	(44,579,856)
Payments to employees for services	(1,648,089)	(1,512,367)
Payments for prizes	(65,280,855)	(63,992,751)
Payments for commissions	(294,532,109)	(286,021,446)
Net cash provided by operating activities	<u>318,171,222</u>	<u>291,279,976</u>
Cash flows from noncapital financing activities:		
Contributions to the Delaware Standardbred Breeder's Program	(3,000,000)	(3,000,000)
Contributions to the State of Delaware	(316,248,183)	(295,259,119)
Net cash used in noncapital financing activities	<u>(319,248,183)</u>	<u>(298,259,119)</u>
Cash flows from investing activities:		
Proceeds from maturity of investments	<u>1,395,524</u>	<u>1,934,684</u>
Net cash provided by investing activities	<u>1,395,524</u>	<u>1,934,684</u>
Net (decrease) increase in cash and cash equivalents	318,563	(5,044,459)
Cash and cash equivalents at beginning of year	<u>5,803,835</u>	<u>10,848,294</u>
Cash and cash equivalents at end of year	<u>\$ 6,122,398</u>	<u>\$ 5,803,835</u>
Reconciliation of operating income to net cash from operating activities:		
Operating income	\$ 318,995,346	\$ 301,228,333
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation expense	130,362	130,361
Changes in operating assets and liabilities:		
Accounts receivable, net	(2,279,582)	(1,904,806)
Prepaid expenses	448,234	(65,812)
Deposit with Multi-State Lottery	(197,876)	17,208
Prizes liability	(402,235)	(4,162,755)
Accounts payable and accrued liabilities	<u>1,476,973</u>	<u>(3,962,553)</u>
Net cash provided by operating activities	<u>\$ 318,171,222</u>	<u>\$ 291,279,976</u>



The Delaware Lottery's financial statements are audited by the firm KPMG 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:

PLAY3®/PLAY4® MULTI-WIN LOTTO **INSTANT GAMES VIDEO LOTTERY**



Player Information Line

For winning numbers and other Delaware Lottery information:

Delaware Lottery Office
McKee Business Park
1575 McKee Road, Suite 102
Dover, Delaware 19904
302-739-5291

Call: 1-800-338-6200 in Delaware
302-736-1436 out of state

Or visit www.delottery.com

