

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

2007 *Annual Report*

2007



For the fiscal year ending June 30, 2007



From the Director, Wayne Lemons

The Delaware Lottery continued to deliver on its promise of responsible growth during this, its 32nd year of operation. Highlighted among the key corporate and player responsibility programs conducted during fiscal year 2007, the Lottery initiated a player anonymity campaign designed to educate ticket game players about their right to retain their personal privacy after claiming prizes. In addition, Delaware's Video Lottery staff continued to professionally and compassionately administrate a self-exclusion program for Video Lottery players seeking assistance in their effort to avoid problem gambling.

The Lottery's Instant Game product line benefited from an increase in the number of popular licensed entertainment property games last year, at a wider variety of price points. This product diversification helped attract players by leveraging popular products and widely recognized brand names. As a result, the Instant Ticket product line experienced its sixth consecutive year of sales growth.

We are pleased that the video lottery operations hosted by the State's three licensed racetracks continued to attract regional visitors. Management and staff of all three licensed locations responded to increased competition from new casinos in Pennsylvania by expanding facilities and increasing service offerings and quality to their customers. As a result, Video Lottery revenues for the past year exceeded expectations and helped to soften the competitive impact. In upcoming months, the Delaware Lottery will continue to work closely with these licensed operators to maintain its standing as one of the Nation's leading video lottery operations.

While the majority of revenue is returned to players as prizes, the Lottery is also proud to have fulfilled its mission to generate significant revenue for the state. In fiscal year 2007, the activities of the Delaware Lottery, its vendors, and its partners in the business community generated a \$256.7 million contribution to the State's General Fund. The contribution raises the Lottery's cumulative 32-year General Fund contribution to nearly \$2.6 billion, all of which helps support State services and lowers the tax burden on Delaware citizens.

The Lottery looks forward to continued successes in fiscal year 2008 and, as always, corporate responsibility and player relations will be among our chief concerns. We will aim to meet the highest public and state expectations, while striving to forge new partnerships and generate revenue to support all State services.

Wayne Lemons
Director of The Delaware Lottery





Year at a glance.

During the fiscal year ending June 30, 2007 the Delaware Lottery contributed \$256.7 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 more than \$7.71 billion in revenue**
- **Paid out more than \$1.17 billion in cash and other prizes to winners of traditional lottery games**
- **Contributed more than \$2.57 billion to the State of Delaware**

Contribution: The General Fund

The Lottery exists, by law, to generate income to fund essential state services. The Lottery accomplishes this by contributing all profits from ticket game sales and Video Lottery operations to the State's 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 State Department of Finance. With the governor's approval, the Legislature is responsible for allocating the General Fund. 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.



Distribution: Lottery Retailer Network

Products

The Lottery supports its mission to maximize revenue contributions to the state's General Fund through 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 a variety of Instant Games. The network consists of nearly 600 retailers throughout the state who are responsible for daily contact with players and the sale of Lottery tickets.

Accessibility

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.

Incentives

The economic wealth of local communities benefits from the Lottery's relationship with local businesses licensed to sell Lottery tickets. Retailers receive sales incentives and bonuses for the sale of Lottery tickets. Lottery tickets help to drive traffic into stores and diversify overall product offerings for merchants. Lottery products are sold in stores in a variety of trade styles, from mom-and-pop shops to corporate chains. It all adds up to a healthy business community in New Castle, Kent and Sussex counties.

Revitalization: Video Lottery and the Horse Racing Industry

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 of 1995 and Harrington Raceway began Video Lottery operations in August of 1996.

Today the racetracks collectively offer more than 7,300 Video Lottery terminals, with 3,076 machines at Delaware Park, 2,715 at Dover Downs and 1,535 at Harrington raceway. Delaware's Video Lottery continues to be one of the most successful in the United States in net-proceeds-per-machine-basis.



Delaware State Lottery
Statements of Revenue, Expenses, and Change in Net Assets
For the years ending June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Revenue:		
Video lottery, net	\$ 635,676,294	\$ 603,501,083
Video lottery machine license fees	1,186,999	-
Online games	85,196,546	93,137,268
Instant games	33,067,084	31,354,597
Total revenue	<u>755,126,923</u>	<u>727,992,948</u>
Cost of games:		
Video lottery commissions	302,239,827	287,527,716
Video lottery franchise game fees	3,100,349	2,038,286
Prize costs, net of reversions	61,324,989	64,878,620
Gaming vendor fees and costs	43,864,367	40,835,730
Online and instant games commissions	7,018,780	8,042,530
Sales aids	18,384	24,243
Total cost of games	<u>417,566,696</u>	<u>403,347,125</u>
Gross profit	<u>337,560,227</u>	<u>324,645,823</u>
Operating expenses:		
Advertising and promotions	2,484,138	2,408,790
Payroll and related benefits	1,832,546	1,647,545
Other general and administrative	2,165,275	1,463,780
Depreciation expense	62,049	130,362
Total operating expenses	<u>6,544,008</u>	<u>5,650,477</u>
Operating income	<u>331,016,219</u>	<u>318,995,346</u>
Nonoperating expenses:		
Contributions to the Delaware Standardbred Breeder's Program	3,000,000	3,000,000
Contributions to the Delaware Certified Thoroughbred Program	1,000,000	-
Contributions to the State of Delaware	326,959,769	315,985,699
Change in net assets	56,450	9,647
Net assets at beginning of year	943,550	933,903
Net assets at end of year	<u>\$ 1,000,000</u>	<u>\$ 943,550</u>



**Delaware State Lottery
Comparative Balance Sheets
For the years ending June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,652,993	\$ 6,122,398
Accounts receivable, net of allowance of \$724,864 and \$726,248, respectively	12,492,244	8,723,164
Investments – restricted for payment of prize liabilities	2,052,815	2,232,690
Prepaid expenses	-	40,280
Total current assets	<u>23,198,052</u>	<u>17,118,532</u>
Noncurrent assets:		
Capital assets, net	6,781	68,830
Investments – restricted for payment of prize liabilities	4,545,589	6,223,034
Deposit with Multi-State Lottery	1,683,048	1,898,623
Total noncurrent assets	<u>6,235,418</u>	<u>8,190,487</u>
Total assets	<u>\$ 29,433,470</u>	<u>\$ 25,309,019</u>
Liabilities and Net Assets		
Current liabilities:		
Prizes liability, including \$2,052,815 and \$2,232,690, respectively, of prize installment obligations	\$ 6,150,681	\$ 6,309,755
Accounts payable and accrued liabilities	8,491,160	5,811,428
Due to the State of Delaware	7,562,992	4,122,629
Total current liabilities	<u>22,204,833</u>	<u>16,243,812</u>
Noncurrent liabilities:		
Multi-State Lottery reserve	1,683,048	1,898,623
Prize installment obligations, noncurrent	4,545,589	6,223,034
Total liabilities	<u>28,433,470</u>	<u>24,365,469</u>
Net assets:		
Invested in capital assets	6,781	68,830
Unrestricted	993,219	874,720
Total net assets	<u>1,000,000</u>	<u>943,550</u>
Total liabilities and net assets	<u>\$ 29,433,470</u>	<u>\$ 25,309,019</u>



Delaware State Lottery
Statements of Cash Flows
For the years ending June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Receipts from customers	\$ 750,170,844	\$ 725,713,366
Payments to vendors for goods and services	(49,823,459)	(46,081,091)
Payments to employees for services	(1,792,421)	(1,648,089)
Payments for prizes	(63,161,508)	(65,280,855)
Payments for commissions	(307,200,775)	(294,532,109)
Net cash provided by operating activities	<u>328,192,681</u>	<u>318,171,222</u>
Cash flows from noncapital financing activities:		
Contributions to the Delaware Standardbred Breeder's Program	(3,000,000)	(3,000,000)
Contributions to the Delaware Certified Thoroughbred Program	(1,000,000)	-
Contributions to the State of Delaware	(323,519,406)	(316,248,183)
Net cash used in noncapital financing activities	<u>(327,519,406)</u>	<u>(319,248,183)</u>
Cash flows from investing activities:		
Proceeds from maturity of investments	<u>1,857,320</u>	<u>1,395,524</u>
Net cash provided by investing activities	<u>1,857,320</u>	<u>1,395,524</u>
Net increase in cash and cash equivalents	2,530,595	318,563
Cash and cash equivalents at beginning of year	<u>6,122,398</u>	<u>5,803,835</u>
Cash and cash equivalents at end of year	<u>\$ 8,652,993</u>	<u>\$ 6,122,398</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 331,016,219	\$ 318,995,346
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	62,049	130,362
Change in operating assets and liabilities:		
Accounts receivable, net	(3,769,080)	(2,279,582)
Prepaid expenses	215,575	448,234
Deposit with Multi-State Lottery	40,280	(197,876)
Prizes liability	(1,836,519)	(402,235)
Accounts payable and accrued liabilities	2,464,157	1,476,973
Net cash provided by operating activities	<u>\$ 328,192,681</u>	<u>\$ 318,171,222</u>



Responsibility: Promoting Responsible Play

Overarching all areas of advertising, marketing and communications activities, the Lottery follows State of Delaware ethics guidelines and self-imposed advertising standards 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 \$1.8 million in fiscal year 2007 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, point-of-purchase and 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 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.



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

