

1996
Annual Report



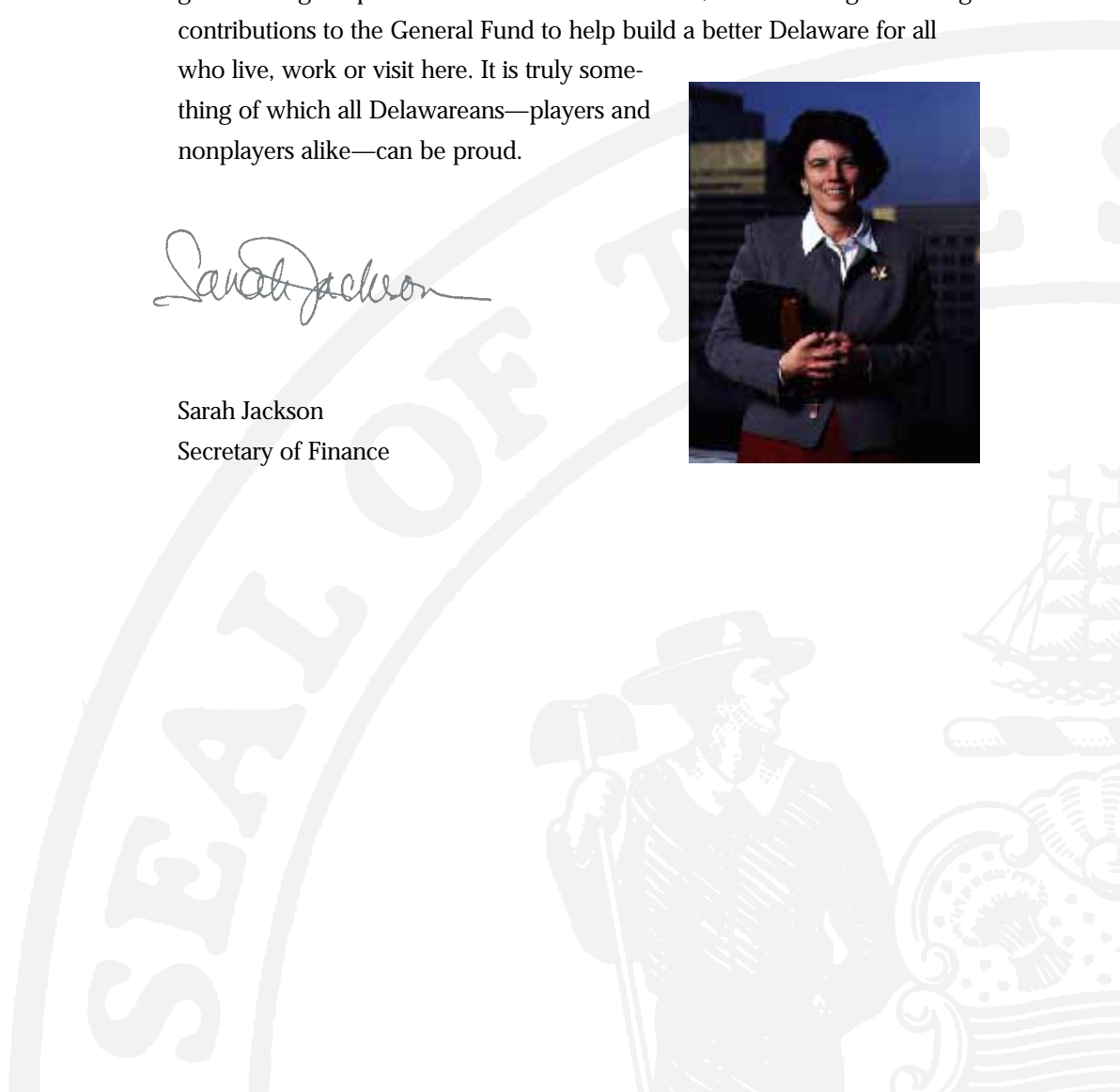
Thanks to advertising, retail store displays and other promotional efforts, most Delawareans are aware of the Delaware Lottery, even if they don't play its games. But how many realize just how important the Lottery is to those who live in, work in or visit our state?

The Lottery's many instant and on-line games—as well as its thriving Video Lottery operation—contribute substantially to the state's General Fund. This fund helps pay for the majority of state services, such as public and higher education, environmental protection, and public safety. In FY '96, the Lottery contributed more than \$57.8 million to the General Fund—an increase over last year of more than \$14.5 million, or 34 percent. Without the Lottery's contribution, additional taxes would be required to help pay for state services.

For 21 years, the Delaware Lottery has succeeded in bringing fun, exciting games and great prizes into the lives of thousands, while making increasing contributions to the General Fund to help build a better Delaware for all who live, work or visit here. It is truly something of which all Delawareans—players and nonplayers alike—can be proud.



Sarah Jackson
Secretary of Finance



Fiscal Year '96 was one of the most exciting in the Lottery's history, marked by impressive accomplishments and record-setting numbers.

Year-end revenue of \$188.9 million represents an increase of more than 65.5 percent over FY '95 revenue. Prizes paid to traditional Lottery players were up 3.2 percent over last year, totaling \$58.2 million. And our contribution to the state's General Fund increased by 34 percent over last year to total more than \$57.8 million.

The Video Lottery operations at Delaware Park and Dover Downs racetracks, introduced during December 1995, have proven to be an excellent complement to the Lottery's traditional games. In less than one year, the Delaware Video Lottery has become the most profitable operation of its kind in the country, generating more net proceeds per machine than in any other state.

The Video Lottery attracts thousands of players from Delaware and surrounding states, and has great appeal to many traditional game players who also like the fast action of playing Video Lottery. Its popularity has resulted in the substantial increase in revenue generated by the Lottery for contribution to the state's General Fund.

I attribute the Video Lottery's success to a number of factors. The first is planning and organization. Before implementing the Video Lottery in Delaware, the Lottery Office surveyed similar operations around the country. We identified the best ideas and included them in our own guidelines and procedures to ensure maximum enjoyment, efficiency and security. The second factor is privatization. Privatization enabled us to consult with and employ industry experts to use their extensive talents and knowledge in helping us start and operate our Video Lottery. The third factor is our hardworking staff. These dedicated men and women devoted countless hours to making the Video Lottery a reality, and I am most grateful to all of them.

I am proud that other states are closely following Delaware's Video Lottery as they seek to rejuvenate their horse-racing industries. Proud, but not surprised. After all, we envisioned Delaware's Video Lottery to be the most entertaining and smooth-running operation of its kind. It is nice to know we achieved our goal.

Of course, continuing support for the Delaware Lottery's traditional instant and on-line games from players and Retailers also contributed to our successful year. Their enthusiasm encouraged us to begin developing a new on-line game, introduced during FY '97, that incorporated the best features of both types of games.

Winning people. Winning ideas. And a winning attitude. That is what has made the Delaware Lottery successful in the past, and will continue to make it successful in the years ahead.



Wayne Lemons
Director, Delaware Lottery



The Delaware Lottery: Making Winners of Us All

The Delaware Lottery is a major source of revenue for the state's General Fund, contributing 30 cents or more from every \$1 ticket it sells. In fact, during the last 21 years of operations, Lottery contributions to the General Fund have totaled nearly \$400 million! The General Fund is the pool of dollars used to pay for the majority of state services, including:

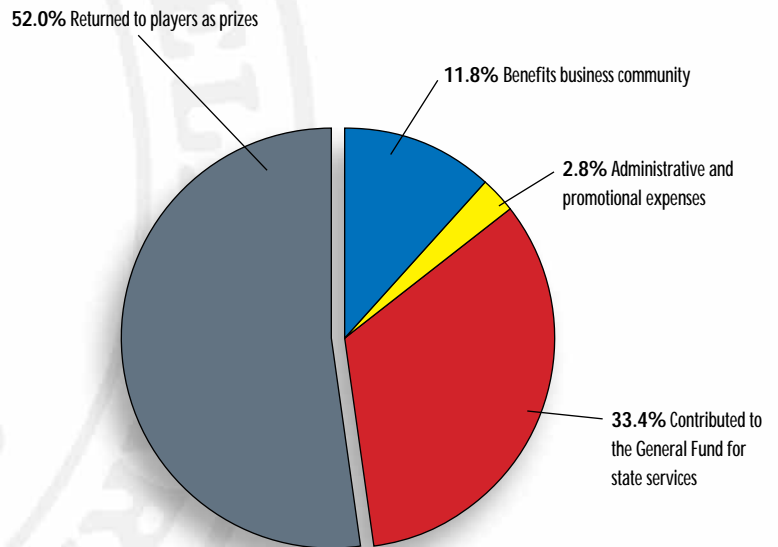
- Public and higher education
- Environmental resources
- Health and social services
- Public safety
- Judicial and corrections
- Child, youth and family services

Without this revenue, more taxes would be needed to provide these vital state services. So the Lottery is not only a source of fun and excitement, but crucial dollars for the state of Delaware as well!

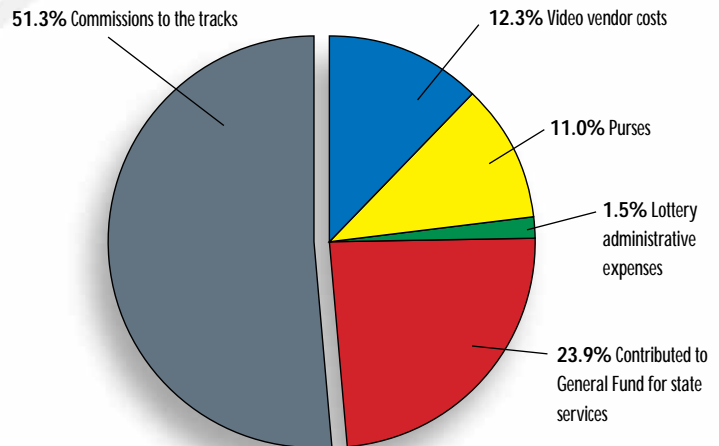
FY '96: A Look Back, A Look Ahead

The excitement surrounding last year's 20th Anniversary celebration of the Delaware Lottery didn't stop after FY '95 ended. In fact, it picked up steam! FY '96 was filled with memorable achievements that improved or enhanced the Lottery, and helped make it even more enjoyable and beneficial for the people that live, work and visit here.

How Your Lottery Dollar Is Distributed (Traditional Lottery Games)



How Your Lottery Dollar Is Distributed (Video Lottery Games)



The Delaware Lottery: Making Winners of Us All

The Video Lottery

Delaware Park and Dover Downs racetracks have been operating Video Lottery machines since December, 1995. Both venues attract players from Delaware and surrounding states—new players, as well as traditional lottery game players who enjoy the fast action of playing Video Lottery. To date, play at both Delaware Park and Dover Downs has exceeded original forecasts. In fact, in less than one year, Delaware's Video Lottery has become the most profitable operation of its kind in the country, generating more net proceeds per machine than in any other state. This has resulted in a substantial increase in revenue for the state's General Fund.

Delaware is the fifth state to install Video Lottery machines which are operated under the authority and direction of the states' respective lotteries. Of the five state lotteries that operate Video Lottery programs, the Delaware Lottery is the only one that permits coin in/coin out and mechanical reel machines. The Delaware Lottery is also the first to run both traditional lottery games and Video Lottery games from a central computer system, with Automated Wagering International's MasterLink™ gaming system.

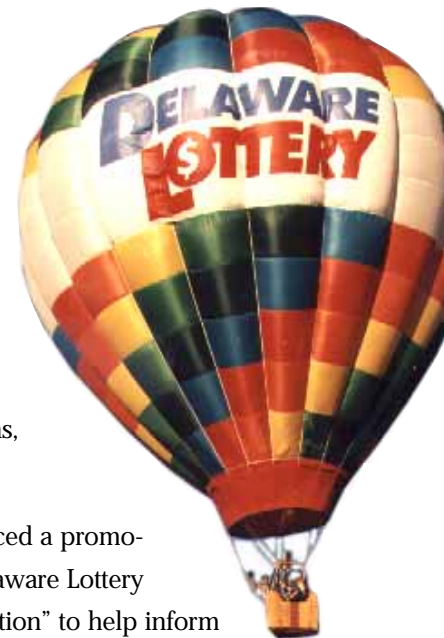


20th Anniversary Celebration Continues

As part of its ongoing 20th Anniversary celebration, the Delaware Lottery developed a year-long multimedia campaign with the theme, "Helping to build a better Delaware since 1975." The campaign aimed to increase the public's awareness of how the Lottery's contribution to the General Fund helps pay for state services that would otherwise require additional tax dollars.

The Lottery created public relations opportunities in a variety of media to spread the word about its financial contribution to the state. Exciting 20th Anniversary promotions were developed for radio and television stations, newspapers, and magazines.

In addition, the Lottery produced a promotional video entitled "The Delaware Lottery and You: A Winning Combination" to help inform Delawareans of the Lottery's role in "helping to build a better Delaware." The video provides information about how Lottery profits are contributed to the General Fund. It also gives historical background on the Lottery, explains the Lottery-Retailer partnership, describes the instant and on-line games, shows how Lottery income is distributed, and lists the Lottery's toll-free player information line number and Internet site address.



The Delaware Lottery: Making Winners of Us All



MasterLink™ Phase II

Development of the Lottery's MasterLink™ Phase II gaming system began in FY '96. This updated computer gaming software will enable the Lottery to

offer new games even more rapidly and provide the flexibility needed to deliver more varied promotions using the computer terminals already installed in Lottery Retailer stores.

Internet Addresses

The Delaware Lottery began participating in several sites on the World Wide Web, enabling Internet surfers to access information about games, drawing times, prizes and other Lottery-related topics. Delaware Lottery information can be found at these Internet addresses:

<http://www.state.de.us/govern/agencies/finance/lottery/lottery.htm>

<http://www.interlotto.com/Delaware.html>

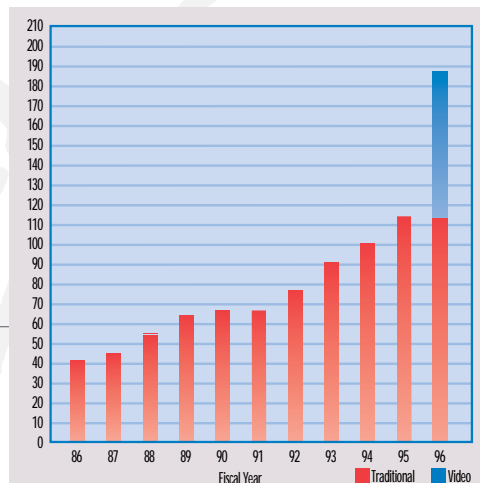
<http://www.dmv.com/~wboc/lottery/delot.html>

Bar-Coded Coupons

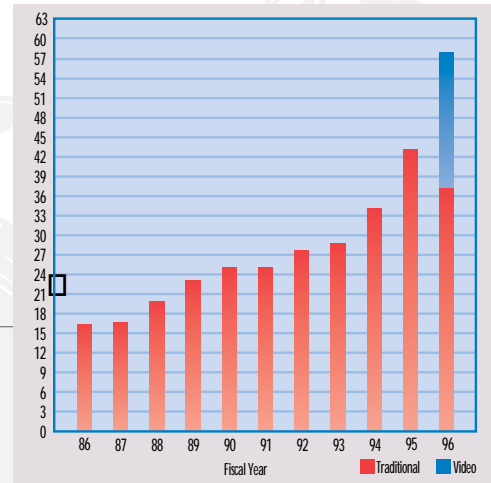
The Delaware Lottery introduced bar-coded coupons last spring. The new bar-coded coupons, called "Delaware Lottery Dollars," enable players to obtain one free one-dollar game ticket of their choice. These coupons are significant because they save Retailers time and effort. By scanning the bar-coded coupons, Retailers can obtain instant credit. This is much faster than having customers manually fill out printed coupons, then collecting them and, later, sending them to the Lottery office for credit. Plus, the coupons help to strengthen the Lottery-Retailer partnership by bringing customers into retail stores where they can shop for Lottery tickets and other items as well, while providing the Lottery with important marketing information.

On-Line Games

In FY '96, player and Retailer support of the Delaware Lottery's traditional instant and on-line games led to the development of a new \$2 game called Winning Hand™. With Winning Hand™, players have the chance to win instant cash prizes plus a weekly cash jackpot. The game—with its simple, yet exciting card-playing theme—was tested extensively through focus groups and surveys until it was perfected. Winning Hand™ was introduced during the fall of 1996.



Gross Revenue
(in millions of dollars)



General Fund Contributions
(in millions of dollars)

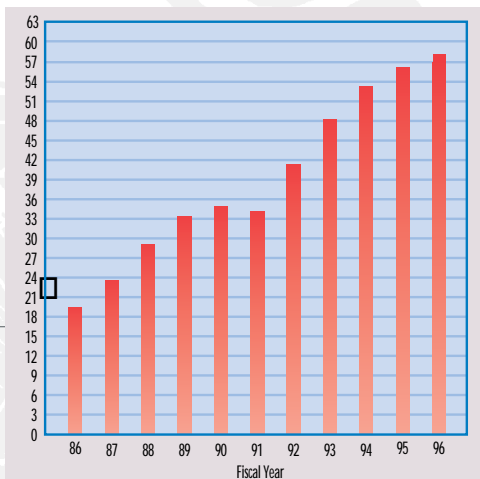
Prize Payouts by Game
(in millions of dollars)

	1995	1996
PLAY 3	\$16.9	\$17.4
PLAY 4	7.4	8.9
LOTTO	6.3	5.7
POWERBALL®	14.8	12.5
INSTANT	10.9	13.7
TOTALS	\$56.3	\$58.2

The Lottery's existing on-line games did remarkably well. PLAY 3 and PLAY 4 continued to generate considerable revenue, Delaware All Cash LOTTO exceeded expectations, and the multimillion-dollar POWERBALL® jackpot kept ticket sales brisk throughout the year.

Instant Scratch Games

The Delaware Lottery introduced 19 instant games during FY '96, including several \$2 games: Win For Life, Instant Solitaire, Wild Cash Bingo, Black Jack, 20 Grand and Holiday Bonus. These popular extended-play scratch games were a hit with players and Retailers and generated substantial revenue for the General Fund.



Prizes to Players of Traditional Lottery
(in millions of dollars)

FY '97: The Excitement Continues

What lies ahead for the Delaware Lottery next year? There will be the introduction of new on-line and instant traditional Lottery games, including the new Winning Hand™ game. We will see Video Lottery operations start at Harrington Raceway and expand at Delaware Park and Dover Downs. But that's just the beginning. The innovative spirit and winning attitude that have distinguished the Delaware Lottery for 21 years will be more evident than ever. **That means new technology, new partnerships and exciting new directions—all “helping to build a better Delaware” for everyone.**



Financial Statements—The Delaware State Lottery

Years ended June 30, 1996 and 1995, with Report of Independent Auditors

Report of Independent Auditors

To Wayne Lemons, Director of the Delaware State Lottery and Sarah Jackson, Secretary of Finance, State of Delaware:

We have audited the accompanying balance sheet of The Delaware State Lottery as of June 30, 1996, and the related statement of revenues, expenses, and changes in earnings and cash flows for the year then ended. These financial statements are the responsibility of the Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Lottery as of and for the year ended June 30, 1995, were audited by other auditors whose report dated September 13, 1995, expressed an unqualified opinion on those statements. The opinion of such auditors, however, does not cover the restatement of those statements as discussed in Note 1.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Delaware State Lottery as of June 30, 1996, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 16, 1996, on our consideration of The Delaware State Lottery's internal control structure and a report dated September 16, 1996, on its compliance with laws and regulations.

Balance Sheets

as of June 30, 1996 and 1995

Assets

	1996	1995
Assets:		
Cash (Note 3)	\$ 2,251,832	\$ 3,242,209
Accounts receivable, net of allowance of \$489,732 and \$121,444, respectively (Note 1)	4,351,370	2,609,733
Investments (Notes 1 and 3)	17,530,833	18,901,115
Property and equipment, net (Note 2)	175,773	220,690
Deposit with Multi-State Lottery (Note 4)	1,120,907	—
Prepayment to the State of Delaware (Note 5)	2,138,788	—
Total Assets	<u>\$ 27,569,503</u>	<u>\$ 24,973,747</u>

Liabilities and Retained Earnings

Liabilities:

Prizes liability, including \$17,530,833 and \$18,901,115 of prize installment obligation (Note 1)	\$22,465,230	\$ 23,176,289
Accounts payable and accrued liabilities	4,104,273	385,723
Due to State of Delaware (Note 5)	—	411,735
Total Liabilities	<u>26,569,503</u>	<u>23,973,747</u>

Commitments and Contingencies (Note 7)

Retained Earnings	<u>1,000,000</u>	<u>1,000,000</u>
Total Liabilities and Retained Earnings	<u>\$27,569,503</u>	<u>\$ 24,973,747</u>

ARTHUR ANDERSON LLP
Baltimore, Maryland
September 16, 1996

Statements of Revenues, Expenses and Changes in Retained Earnings

for the years ended June 30, 1996 and 1995

	1996	1995
Revenues (Notes 1 and 4):		
On-line games	\$ 87,696,008	\$ 94,390,811
Video Lottery	77,062,810	—
Instant games	23,957,598	19,525,932
Other	197,353	184,558
Total revenues	<u>188,913,769</u>	<u>114,101,301</u>
Cost of Games:		
Prize costs, net of reversions (Notes 1 and 4)	58,197,698	56,331,372
On-line games commissions (Note 7)	5,860,887	5,009,548
Video Lottery commissions (Note 7)	39,539,524	—
Instant games commissions (Note 7)	1,252,476	979,701
Gaming vendor fees and costs (Note 7)	15,487,830	5,330,553
Total cost of games	<u>120,338,415</u>	<u>67,651,174</u>
Gross Profit	<u>68,575,354</u>	<u>46,450,127</u>
Operating Expenses:		
Advertising and promotions (Note 7)	1,862,056	1,749,820
Payroll and related benefits (Notes 5 and 6)	1,210,184	1,070,420
Other general and administrative	1,219,138	379,887
Total operating expenses	<u>4,291,378</u>	<u>3,200,127</u>
Operating Income	<u>64,283,976</u>	<u>43,250,000</u>
Operating Transfers to the State of Delaware (Note 5)	<u>(64,283,976)</u>	<u>(43,250,000)</u>
Net Income	<u>—</u>	<u>—</u>
Retained Earnings, beginning of year	1,000,000	1,000,000
Retained Earnings, end of year	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>

Statements of Cash Flows

for the years ended June 30, 1996 and 1995

	1996	1995
Cash Flows from Operating Activities:		
Operating income	\$ 64,283,976	\$ 43,250,000
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	55,823	38,825
Loss on disposal of fixed assets, net	5,029	128,844
Changes in operating assets and liabilities:		
Increase in accounts receivable, net	(1,741,637)	(1,461,351)
Increase in deposit with Multi-State Lottery	(1,120,907)	—
Increase (decrease) in accounts payable and accrued liabilities	3,718,550	(3,290)
(Decrease) increase in prizes liability	(711,059)	1,537,280
Net cash provided by operating activities	<u>64,489,775</u>	<u>43,490,308</u>
Cash Flows from Investing Activities:		
Purchases of fixed assets, net	(15,935)	—
Proceeds from maturity of investments	1,370,282	—
Net cash provided by investing activities	<u>1,354,347</u>	<u>—</u>
Cash Flows from Noncapital Financing Activities:		
Operating transfers to the State of Delaware recognized during FY '96 and '95, respectively	(64,283,976)	(43,250,000)
Prepayment to the State of Delaware as of June 30, 1996	(2,138,788)	—
Amount due to the State of Delaware at June 30, 1995, that was transferred during FY '96	(411,735)	—
Net cash used in noncapital financing activities	<u>(66,834,499)</u>	<u>(43,250,000)</u>
Net (Decrease) Increase in Cash	<u>(990,377)</u>	<u>240,308</u>
Cash, beginning of year	3,242,209	3,001,901
Cash, end of year	<u>\$ 2,251,832</u>	<u>\$ 3,242,209</u>

Notes to Financial Statements

June 30, 1996 and 1995

1. Summary of Significant Accounting Policies:

Legislative Enactment

The Delaware State Lottery (the "Lottery") was established by Enabling Legislation passed on May 31, 1974, by the General Assembly of the State of Delaware under the authority of the Department of Finance and under the supervision of a Director. The Director has the power and duty to establish rules for conducting games, including the type and number of games, the price of tickets, the number and amounts of winning tickets, the manner of selecting winning tickets, the manner of prize payment, frequency of drawings, locations and methods for the sale of tickets, procedures for licensing of retailers and all other functions related to the operation of the Lottery.

The Legislation provides that for the non-video lottery games, at least 45% of total revenues shall be used to pay prizes, operating expenses shall not exceed 20% of total revenue, and at least 30% of total revenue will be paid to the General Fund of the State of Delaware. The legislation also provides that for the video lottery games, at least 87%, but not more than 95%, of total revenues shall be used to pay prizes.

Basis of Presentation

The Lottery is accounted for as an enterprise fund. In accordance with generally accepted accounting principles, the financial statements are prepared on the accrual basis of accounting, which requires recognition of revenues when earned and expenses when incurred. The Lottery has elected not to apply all FASB statements and interpretations issued after November 30, 1989, in accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*.

Use of Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Accounts Receivable

Accounts receivable consist primarily of unsettled balances due to the Lottery from retailers, which principally include grocery and convenience stores serving as the primary distribution channel for lottery sales to the general public. No individual retailer accounts for a significant amount of the Lottery's sales or accounts receivable.

Investments

Investments consist of insurance company obligations carried at amortized cost. As the Lottery intends to hold these investments until maturity, they are carried at amortized cost.

Prize Obligations

Prize obligations for the on-line games are determined and recognized after each drawing is held. For the numbers games, winners are paid a certain amount depending upon the number of, or order of, winning numbers. For the Lotto game, 61% of the total game revenues is allocated to the prize pools. Of the total prize pool, 40% is allocated to the jackpot winners in the Lotto game. The remaining prize pool is allocated to the other winners. If there are no jackpot winners in the Lotto game, the amount is carried forward until there is a winner. For the POWERBALL® game, 50% of the revenues are allocated to the prize pool.

Prize obligations for the instant games are recognized monthly by multiplying the applicable game's prize percentage by the revenues recognized for the month.

Disbursements for prizes, including installment prize awards, are charged against the obligations for unpaid prize awards. Prizes unclaimed after one year revert back to the Lottery and reduce the prize costs for the year.

Prior to November 1993, the Lottery paid the winners of jackpots in annual installments over periods which vary generally from 14 to 20 years. The future prize installment obligations payable as of June 30, 1996, and during the next five years and thereafter are as follows:

Year Ending June 30,	Amount
1997	\$ 2,869,683
1998	2,799,683
1999	2,756,183
2000	2,734,516
2001	2,714,516
Thereafter	23,035,572
Total payments for unpaid prize installment obligations	36,910,153
Less: Imputed interest	(19,379,320)
Present value of prize installment obligations	<u>\$ 17,530,833</u>

As of June 30, 1995, the present value of the prize installment obligations was \$18,901,115.

Revenue Recognition

Revenues from on-line games are recognized in the month during which the ticket was sold. Revenues from the sale of instant tickets are recognized when the book has been activated and 85% of the related prizes of an activated book is paid. Revenues from video lottery sales are recognized, net of prizes paid, at the time the public plays the game.

Reclassification

Certain reclassifications have been made to the 1995 amounts in order to conform with the 1996 presentation. In addition, the balance sheet as of June 30, 1995, has been restated to include the amount of the investments and future prize obligation related to the jackpots prior to November 1993. The June 30, 1995, balance sheet, as previously reported and audited by other auditors, did not include this asset or liability. The June 30, 1995, balance sheet in this report has been restated to record this asset and liability; however, the other auditors have not provided an opinion on these restated statements.

2. Property and Equipment, Net:

Property and equipment are carried at cost. Depreciation is computed by using the straight-line method over the estimated lives of the assets.

Property and equipment as of June 30, 1996 and 1995, consist of the following:

	Useful Lives	1996	1995
Furniture, equipment and fixtures	5 - 7 years	\$321,060	\$ 305,155
Motor vehicles	5 years	88,278	101,741
		<u>409,338</u>	<u>406,896</u>
Less: Accumulated depreciation		233,565	186,206
Property and equipment, net		<u>\$175,773</u>	<u>\$ 220,690</u>

3. Cash and Investments in Annuity Contracts:

Cash receipts and disbursements of the Lottery are made in and out of the State of Delaware cash funds in accordance with State policy. Also in accordance with State policy, income earned on these funds deposited with the State of Delaware accrues to the State. The Lottery maintains a working cash fund to pay prize winners and small disbursements. The cash maintained in this working cash fund is deposited in an account with a bank and is entirely covered by federal depository insurance or by collateral held by an agent bank.

Cash as of June 30, 1996 and 1995, consists of the following:

	1996	1995
On hand and in bank	\$ 1,855,387	\$ 2,462,774
Held by State of Delaware	394,445	777,435
Petty cash	2,000	2,000
	<u>\$ 2,251,832</u>	<u>\$ 3,242,209</u>

Annuity contracts were purchased from insurance companies to fund prizes of \$150,000 or more payable on an installment basis. Investments are carried at the present value of future installment prize payments, utilizing guaranteed interest rates ranging from approximately 5% to 10%. The market value of some of these investments is not easily determinable; however, it is the Lottery's intent to hold the investments until maturity. Interest earned on annuity contracts to pay Lotto prize obligations is not recognized as revenue, but is credited to obligations for unpaid prize awards.

4. Participation in the Multi-State Lottery:

The Lottery is a member of the Multi-State Lottery (MUSL), which operates on-line games on behalf of participating state lotteries. Each MUSL member sells game tickets through its agents and makes weekly wire transfers to the MUSL in an amount equivalent to the member's Lottery share of the estimated grand prize liability. Lesser prizes are paid directly to the winners by each member Lottery. MUSL operates the POWERBALL® game. The prize pool for POWERBALL® is 50% of each drawing period's sales. MUSL allocates each drawing period's sales, included as part of each MUSL member's prize liability, as follows: MUSL first allocates 2% of each drawing period's sales to fund the Set-aside Pool to a cap of \$2,500,000. When that cap is reached, the 2% is allocated to the Set Prize Reserve Pool to a cap of \$30,000,000. Finally, the Prize Reserve Pool is funded.

The MUSL has placed a \$52,000,000 cap on the prize reserve funds, and once the prize reserve funds exceed this designated cap, the excess becomes part of the prize pool. The prize reserve funds serve as a contingency reserve to protect the MUSL from unforeseen prize liabilities, and the money in this reserve fund is refundable to MUSL members if the MUSL disbands or if a member leaves the MUSL Board. Members leaving the MUSL must wait one year before receiving their remaining share, if any, of the prize reserve funds. As of June 30, 1996, the prize reserve fund had a balance of \$61,171,718, of which the Lottery's share was \$1,120,907. The Lottery's \$1,120,907 share of the prize reserve consisted of \$529,269 for the Prize Reserve, \$497,758 for the Set Prize Reserve and \$93,880 for miscellaneous expenses. As of June 30, 1995, the prize reserve fund had a balance of \$31,089,716, of which the Lottery's share was \$529,269. The Lottery did not recognize this deposit as an asset as of June 30, 1995.

A summary of revenues, included in on-line games revenues, and related prize costs associated with the Lottery's participation in MUSL for the year ended June 30, 1996 and 1995, follows:

	1996	1995
Revenues	\$25,560,156	\$ 31,329,055
Prize costs	\$12,780,078	\$ 15,664,555

5. Operating Transfers and Other Transactions with the State of Delaware:

As required under its Enabling Legislation, retained earnings of the Lottery may not exceed \$1,000,000; therefore, the Lottery periodically transfers surplus funds to the State of Delaware in accordance with the Act. For the years ended June 30, 1996 and 1995, \$64,283,976 and \$43,250,000, respectively, were recognized as transfers to the State of Delaware. As of June 30, 1996, the Lottery recognized a prepayment of \$2,138,788 to the State of Delaware which represented the amount of the funds transferred to the State of Delaware in excess of the Lottery's earnings prior to the transfer.

During 1996, the Lottery incurred approximately \$271,538 of payroll-related costs, including pension, health insurance and other employee benefit costs, paid to various State of Delaware agencies responsible for the administration of benefit programs.

6. Retirement Benefits:

All Lottery personnel are employees of the State and are covered by pension, health insurance and other employee benefit programs administered by agencies of the State of Delaware.

As such, the Lottery contributes to the State Employees' Pension Plan (System) established by the State of Delaware (State) to provide pension benefits for State employees. The Lottery accounts for the plan as a cost-sharing, multiple-employer, public employees retirement system, because a separate valuation is not performed for the Lottery, and the Lottery's only obligation to the plan is its required annual contributions. The System is considered part of the State's financial reporting entity, and is not considered a part of the Lottery's reporting entity. The System prepares separate financial statements which can be obtained from the Secretary of Finance, Carvel State Building, Wilmington, Delaware, 19801.

The System consists of the several plans which are managed by the State Employees' Pension Plan. The various plans have different vesting periods ranging from 5 to 20 years, various eligibility requirements and various benefits that are provided. The Lottery has made its required contributions for the years ending June 30, 1996, 1995 and 1994, of approximately \$91,900, \$91,500 and \$71,500, respectively.

7. Commitments and Contingencies:

Contracts

As of June 30, 1996, the Lottery has entered into various contracts for services to be rendered relating principally to the operation of the Lottery's games. Under the on-line and instant gaming systems vendor contracts, the Lottery is committed to the following future obligations:

	% of On-Line Sales	Remaining Period
On-line system	2.79%	3.25 years
Instant ticket validation system (per validation)	\$0.023	3.25 years
Video lottery machines	8.7% to 12.0%	4.50 years
Video central system	2.78%	3.25 years

In addition to the future commitments above, the Lottery also has the following commitments:

Year Ending June 30,	Amount
1997	\$ 3,010,150
1998	1,530,750
1999	409,850
2000	175,963



Delaware Lottery Office

McKee Business Park, Suite 102

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Dover, DE 19904

(302) 739-5291

