

THE DELAWARE LOTTERY

2001 ANNUAL REPORT

Part of every community.
For everyone's benefit.



THE DELAWARE LOTTERY GAMES

The Delaware Lottery offers players a wide variety of games with different play styles, prize levels and drawing frequencies. Current Delaware Lottery games are:

Play 3 and Play 4

LOTTO

Instant Games

Rolldown®

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





Building stronger communities, one game at a time.

OUR COMMUNITIES ARE AS MUCH A PART OF

THE DELAWARE LOTTERY AS THE DELAWARE

LOTTERY IS PART OF OUR COMMUNITIES.

During the fiscal year ending June 30, 2001, the Delaware Lottery contributed \$204.6 million to the state's General Fund — an increase of ten percent over the previous year — bringing the 26-year total of Lottery contributions to the state to more than \$1.1 billion.

Since 1975, the Lottery has become an integral part of all the communities within our state. It has generated more than \$3.6 billion in revenue and paid out more than \$835.9 million in cash and prizes to winners of traditional Lottery games. And, just as active members help make a community stronger and more vibrant, the Lottery has helped the state's communities grow and prosper.

Over the years, all elements of our statewide communities — people, businesses, tourist attractions and government — have benefited from the Delaware Lottery.

The people: for all of us, from all of us.

Buying a Delaware Lottery ticket is a simple act, yet it involves people and programs throughout the state. Lottery players contribute to their communities by helping to raise funds for needed state services, while they enjoy the entertainment value offered by the wide variety of Lottery games.

Lottery players come from all walks of life; recent big prize winners include a computer consultant, a retired auto worker, a sports team owner and a member of the U.S. Air Force. This past year, the Lottery completed a project to ensure that all its Retailers comply with Americans with Disabilities Act (ADA) standards, so players with physical disabilities have easy access to their stores.

Everyone can have fun playing Delaware Lottery games, with chances to win cash or other prizes. At the same time, players have fun talking about the Lottery. Whether people chat with coworkers about the next jackpot or their favorite formula for picking numbers, the Lottery contributes to creating entertainment in everyday activities.

The Lottery also contributes a great deal of money to the state, helping to fund many of the services on which Delaware residents rely — schools, family and public safety programs, and more. So while playing the Lottery is fun, it also supports communities throughout the state.



**The business community:
building the foundation for better business.**

The Delaware Lottery, a profitable source of secure public entertainment, adds value to small businesses and promotes healthy local economies. Selling Lottery tickets strengthens neighborhood shops and other retail establishments.

Lottery ticket sales provide commission income for business owners while generating customer traffic, which can lead to increased sales of other items as well. In addition to commissions, Retailers earn incentives on ticket sales, plus bonuses on prizes paid for winning tickets.

As the Lottery's sales force, Retailers develop valuable, face-to-face relationships with players. The Lottery relies on its Retailer network and provides support to help members realize the benefits of business ownership. In coming together at Lottery meetings, Retailers form their own community, learn about new games, and relate their ideas for new ways to promote the Lottery and meet players' needs.

The Delaware Lottery itself is a business that provides jobs for a staff of hardworking, dedicated employees. The production, promotion and distribution of Lottery products benefits many other businesses in the state as well, by providing income for the vendors, suppliers, professional services and media that do business with the Lottery.

Within the overall Lottery enterprise, the Video Lottery provides a targeted source of business and revenue that supports legislative efforts to rejuvenate the state's horse breeding and racing industry.

Tourism: bringing value into the state.

The Lottery is one of Delaware's many attractions, from the Brandywine to the beaches, that bring visitors to the state every year. While they're here, they often enjoy playing Delaware Lottery games. Many visitors play Video Lottery at the racetracks, which have become prime tourist destinations drawing people and income to the state.

Delaware Park and Dover Downs began offering Video Lottery in December 1995, and Harrington Raceway started in August 1996. Since that time, based on net proceeds per machine, Delaware's Video Lottery has been — and continues to be — the most successful in the United States.

The economy: contributing to every community.

Lottery contributions to the state's General Fund benefit all the state's communities by lessening the tax burden on Delaware residents. Lottery proceeds support needed services that would otherwise have to be funded with additional tax dollars.

And every time a Delaware resident wins a Lottery prize, that winner often invests and spends his or her prize money here in the state. Essentially, Lottery winners give back to the community in which they live and reinvest in the state's economy.



State government: how Lottery benefits reach us.

The Lottery is the third-largest contributor to Delaware’s General Fund, the pool of dollars that supports many state services. Through the General Fund, the state contributes to every community, providing important services that affect everyone’s daily life: public and higher education; health and social services; judicial and corrections services; child, youth and family services; as well as public safety.

The Delaware Lottery is a self-funded entity within the state’s Department of Finance. Since its start in 1975, the Lottery has grown into a mature business that has fulfilled, and even exceeded, its legislated mission of helping to fund state services without additional tax dollars.

The law: being responsible to the community.

The Lottery recognizes the need to fulfill its legal responsibilities to all the state’s communities. Lottery advertising and other communications include messages urging people to “Play Responsibly,” spending only what they can afford. After all, one Lottery ticket is all that’s needed to win a prize. We support laws that limit Lottery ticket purchases to people 18 years of age or older, and limit Video Lottery games to be played only by persons who are 21 or older.

The Lottery also helps fund programs offered by the state’s Department of Health and Social Services for problem gamblers. Lottery communications include a toll-free helpline that people can call if they or someone they know may have a gambling problem.

DURING THE PAST 26 YEARS, THE DELAWARE LOTTERY AND DELAWARE RESIDENTS HAVE DEVELOPED A MUTUALLY BENEFICIAL RELATIONSHIP. LOTTERY PLAYERS GAIN ENTERTAINMENT VALUE AND CONTRIBUTE TO THEIR COMMUNITIES, WHILE THE LOTTERY CONTRIBUTES TO ALL THE COMMUNITIES, SERVICES AND PEOPLE OF THE STATE. THE PEOPLE OF DELAWARE RELY ON THE LOTTERY, AND THE LOTTERY RELIES ON THE PEOPLE WHO MAKE IT POSSIBLE.

Delaware State Lottery

*Statements of revenues, expenses and changes in retained earnings For the years ended June 30, 2001 and 2000

	2001	2000
Revenue:		
Video lottery	\$ 504,091,772	\$ 453,896,926
On-line games	77,713,778	82,945,088
Instant games	19,350,486	19,604,567
Other	55,381	172,346
Total revenue	<u>601,211,417</u>	<u>556,618,927</u>
Cost of games:		
Video lottery commissions	245,174,029	221,754,594
Prize costs, net of reversions	48,656,375	51,133,407
Gaming vendor fees and costs	32,428,424	32,503,324
On-line and instant games commissions	5,755,940	6,151,098
Total cost of games	<u>332,014,768</u>	<u>311,542,423</u>
Gross profit	<u>269,196,649</u>	<u>245,076,504</u>
Operating expenses:		
Advertising and promotions	2,872,828	2,358,832
Payroll and related benefits	1,545,772	1,396,449
Other general and administrative	2,886,847	3,127,828
Total operating expenses	<u>7,305,447</u>	<u>6,883,109</u>
Operating income	<u>261,891,202</u>	<u>238,193,395</u>
Non-operating expenses:		
Contributions to the Delaware Standardbred Breeder's Program	2,000,000	2,000,000
Contributions to the State of Delaware	259,950,519	236,193,395
Net loss	(59,317)	—
Retained earnings, beginning of year	<u>1,000,000</u>	<u>1,000,000</u>
Retained earnings, end of year	<u>\$ 940,683</u>	<u>\$ 1,000,000</u>

Delaware State Lottery

*Balance sheets June 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Assets:		
Cash and cash equivalents	\$ 2,885,102	\$ 4,284,787
Accounts receivable, net of allowance of \$639,774 and \$623,099, respectively	10,282,795	6,920,934
Investments	18,141,194	12,926,375
Prepaid expenses	193,617	239,445
Property and equipment, net	839,613	1,032,186
Deposit with Multi-State Lottery	1,711,267	1,567,937
Total assets	<u>\$ 34,053,588</u>	<u>\$ 26,971,664</u>
Liabilities and retained earnings		
Liabilities:		
Prizes liability, including \$18,141,194 and \$12,926,375, respectively, of prize installment obligation	\$ 22,019,865	\$ 18,115,803
Accounts payable and accrued liabilities	7,805,142	6,200,815
Due to the State of Delaware	3,287,898	1,655,046
Total liabilities	<u>33,112,905</u>	<u>25,971,664</u>
Commitments		
Retained earnings	940,683	1,000,000
Total liabilities and retained earnings	<u>\$ 34,053,588</u>	<u>\$ 26,971,664</u>

Delaware State Lottery

*Statements of cash flows For the years ended June 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Cash flows from operating activities:		
Receipts from customers	\$ 597,794,175	\$ 556,522,275
Other operating receipts	55,381	172,346
Payments to suppliers for goods and services	(37,747,552)	(37,678,034)
Payments to employees for services	(1,513,744)	(1,378,132)
Payments for prizes	(52,752,157)	(56,386,873)
Payments for commissions	(249,703,146)	(231,191,639)
Net cash provided by operating activities	<u>256,132,957</u>	<u>230,059,943</u>
Cash flows from noncapital financing activities:		
Contributions to the Delaware Standardbred Breeder's Program	(2,000,000)	(4,000,000)
Contributions to the State of Delaware	(258,317,667)	(236,663,349)
Net cash used in noncapital financing activities	<u>(260,317,667)</u>	<u>(240,663,349)</u>
Cash flows from investing activities:		
Proceeds from maturity of investments	2,785,025	1,302,273
Net decrease in cash and cash equivalents	<u>(1,399,685)</u>	<u>(9,301,133)</u>
Cash and cash equivalents, beginning of year	<u>4,284,787</u>	<u>13,585,920</u>
Cash and cash equivalents, end of year	<u>\$ 2,885,102</u>	<u>\$ 4,284,787</u>

Delaware State Lottery

*Statements of cash flows

For the years ended June 30, 2001 and 2000 (continued)

	<u>2001</u>	<u>2000</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 261,891,202	\$ 238,193,395
Adjustments to reconcile operating income to net cash provided by operating activities—		
Depreciation expense	192,573	205,380
Effect from changes in operating assets and liabilities:		
Accounts receivable, net	(3,361,861)	75,694
Deposit with Multi-State Lottery	(143,330)	110,402
Prepaid expenses	45,828	(15,646)
Prizes liability	(4,095,782)	(5,253,466)
Accounts payable and accrued liabilities	1,604,327	(3,255,816)
Net cash provided by operating activities	<u>\$ 256,132,957</u>	<u>\$ 230,059,943</u>

*The Delaware Lottery's financial statements are audited by the firm Arthur Andersen, 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.