

THE DELAWARE LOTTERY



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

FOR THE FISCAL YEAR ENDING JUNE 30, 2005



Revenue—How much the Lottery helps

During the fiscal year ending June 30, 2005, the Delaware Lottery contributed \$234 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 \$6.2 billion in revenue**
- **Paid out more than \$1 billion in cash and other prizes to winners of traditional lottery games**
- **Contributed more than \$2 billion to the State of Delaware**

General Fund—How the Lottery helps

The Lottery exists, by law, 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 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.

Lottery Retailer Network— How the Lottery works

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. 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—How it has shaped 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, 1995, and Harrington Raceway began Video Lottery operations in August, 1996.

Today the racetracks collectively offer 6,581 Video Lottery terminals, with 2,500 machines each at Delaware Park and Dover Downs and 1,581 at Harrington Raceway. Delaware's Video Lottery is one of the most successful in the United States in a net-proceeds-per-machine basis.

A bright future—How the Lottery continues to build 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.

As the Delaware Lottery evolves to meet changing player preferences, adults are encouraged to have fun and to always play responsibly.



DELAWARE STATE LOTTERY

***Statement of Revenue, Expenses, and Change in Net Assets
For the years ending June 30, 2005, and June 30, 2004**

	<u>2005</u>	<u>2004</u>
Revenue:		
Video Lottery, net	\$575,234,109	\$ 532,312,673
On-line games, net	85,361,356	83,600,787
Instant games, net	<u>28,695,737</u>	<u>25,011,807</u>
Total revenue	<u>689,291,202</u>	<u>640,925,267</u>
Cost of games:		
Video Lottery commissions	274,662,888	254,937,728
Prize costs, net of reversions	59,829,996	53,190,946
Gaming vendor fees and costs	39,308,123	36,626,439
On-line and instant games commissions	7,062,069	6,600,986
Sales aids	<u>8,895</u>	<u>28,132</u>
Total cost of games	<u>380,871,971</u>	<u>351,384,231</u>
Gross profit	<u>308,419,231</u>	<u>289,541,036</u>
Operating expenses:		
Advertising and promotions	2,517,481	2,499,704
Payroll and related benefits	1,569,045	1,431,071
Other general and administrative	2,974,011	1,640,032
Depreciation expense	<u>130,361</u>	<u>55,437</u>
Total operating expenses	<u>7,190,898</u>	<u>5,626,244</u>
Operating income	301,228,333	283,914,792
Nonoperating expenses:		
Contributions to the Delaware Standardbred Breeder's Program	3,000,000	3,000,000
Contributions to the State of Delaware	<u>297,921,666</u>	<u>281,188,496</u>
Change in net assets	306,667	(273,704)
Net assets at beginning of year	<u>627,236</u>	<u>900,940</u>
Net assets at end of year	<u>\$ 933,903</u>	<u>\$ 627,236</u>



DELAWARE STATE LOTTERY

***Comparative Balance Sheets**

For the years ending June 30, 2005, and June 30, 2004

	<u>2005</u>	<u>2004</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,803,835	\$ 10,848,294
Accounts receivable, net of allowance of \$705,122 and \$679,229, respectively	6,443,582	4,538,776
Investments—restricted for payment of prize liabilities	2,456,758	2,468,373
Prepaid expenses	488,514	422,702
Total current assets	<u>\$ 15,192,689</u>	<u>\$ 18,278,145</u>
Capital assets, net	199,192	329,553
Investments—restricted for payment of prize liabilities	7,394,490	9,317,557
Deposit with Multi-State Lottery	1,700,747	1,717,955
Total noncurrent assets	<u>9,294,429</u>	<u>11,365,065</u>
Total assets	<u><u>\$ 24,487,118</u></u>	<u><u>\$ 29,643,210</u></u>
Liabilities and net assets		
Current liabilities:		
Prizes liability, including \$2,456,758 and \$2,468,373, respectively, of prize installment obligations	\$ 5,540,534	\$ 7,780,222
Accounts payable and accrued liabilities	4,532,331	8,477,674
Due to the State of Delaware	4,385,113	1,722,566
Total current liabilities	<u>14,457,978</u>	<u>17,980,462</u>
Multi-State Lottery reserve	1,700,747	1,717,955
Prize installment obligations, noncurrent	7,394,490	9,317,557
Total liabilities	<u>23,553,215</u>	<u>29,015,974</u>
Net assets:		
Invested in capital assets	199,192	329,553
Unrestricted	734,711	297,683
Total net assets	<u>933,903</u>	<u>627,236</u>
Total liabilities and net assets	<u><u>\$ 24,487,118</u></u>	<u><u>\$ 29,643,210</u></u>



DELAWARE STATE LOTTERY

*Statements of Cash Flows

For the years ending June 30, 2005, and June 30, 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Receipts from customers	\$687,386,396	\$650,024,548
Payments to vendors for goods and services	(44,579,856)	(41,466,571)
Payments to employees for services	(1,512,367)	(1,441,478)
Payments for prizes	(63,992,751)	(60,291,067)
Payments for commissions	(286,021,446)	(259,907,677)
Net cash provided by operating activities	<u>291,279,976</u>	<u>286,917,755</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	(295,259,119)	(280,837,212)
Net cash used in noncapital financing activities	<u>(298,259,119)</u>	<u>(283,837,212)</u>
Cash flows from investing activities:		
Proceeds from maturity of investments	<u>1,934,684</u>	<u>3,154,540</u>
Net cash provided by investing activities	<u>1,934,684</u>	<u>3,154,540</u>
Net (decrease) increase in cash and cash equivalents	(5,044,459)	6,235,083
Cash and cash equivalents at beginning of year	<u>10,848,294</u>	<u>4,613,211</u>
Cash and cash equivalents at end of year	<u>\$ 5,803,835</u>	<u>\$ 10,848,294</u>
Reconciliation of operating income to net cash from operating activities:		
Operating income	\$301,228,333	\$283,914,792
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation expense	130,361	55,437
Effect from changes in operating assets and liabilities:		
Accounts receivable, net	(1,904,806)	9,099,281
Deposit with Multi-State Lottery	17,208	77,024
Prepaid expenses	(65,812)	2,644
Prizes liability	(4,162,755)	(7,100,121)
Accounts payable and accrued liabilities	(3,962,553)	868,698
Net cash provided by operating activities	<u>\$291,279,976</u>	<u>\$286,917,755</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

