



2010 ANNUAL REPORT

FOR THE FISCAL YEAR ENDING JUNE 30, 2010



FROM THE DIRECTOR, WAYNE LEMONS

The Delaware Lottery made impressive strides during fiscal year 2010 to increase its appeal to current and prospective players as well as expand its commercial footprint within the State of Delaware. In a marketplace where even the most loyal consumers expect and demand more, the Lottery kept pace by debuting new gaming options and play styles while growing its retail network.

The Lottery continued to deliver on its mission as a top revenue generator for Delaware in part by launching a multi-state mega-jackpot game and introducing new table games. Already a well established brand, the addition of MEGA MILLIONS® allowed players who had previously procured tickets for the game in neighboring states to now buy them at Licensed Retailers in the First State. Meanwhile, live poker tables were introduced at all three racinos, adding to the allure and excitement of the venues. Sports betting also kicked into high gear during fiscal year 2010 while Instant Games remained attractive thanks to a refreshed lineup with a variety of price points.



But bringing new products to market and refining player favorites is just part of the Lottery's annual challenge. Creating opportunities to interact with players is just as important. More than 530 Licensed Retailers are now operating in the First State, thanks in part to a new deal signed with discount department chain Kmart and the addition of other independent Retailers. In the meantime, the state's more than 7,000 Video Lottery terminals were rotated regularly to keep products fresh and consumers engaged at Delaware Park, Dover Downs and Harrington Raceway.

Overall, the Lottery's Traditional and Video Lottery Games remained highly relevant and became more accessible during fiscal year 2010. Together, Traditional and Video games generated a steady stream of revenue that helped the Lottery contribute more than \$275 million to the State. By engaging new audiences in new ways, the Lottery successfully decreased the burden on taxpayers and closed out another decade by meeting the changing demands of Delaware's dynamic marketplace.

A handwritten signature in black ink that reads "Wayne Lemons". The signature is written in a cursive, flowing style.

Wayne Lemons
Director of The Delaware Lottery

2010 AT A GLANCE

During the fiscal year ending June 30, 2010, the Delaware Lottery contributed \$275 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 \$9.85 billion in revenue
- Paid out more than \$1.37 billion in cash and other prizes to winners of traditional lottery games
- Contributed more than \$3.35 billion to the State of Delaware

GENERAL FUND: GIVING BACK TO THE STATE

The Lottery exists, by law, to generate income to fund essential State services. The Lottery accomplishes this by contributing all profits from ticket sales and Video Lottery operations as well as a portion of sports betting and table game profits to the State's General Fund, the pool of dollars that supports many critical 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.

PRODUCT LINE: SOMETHING FOR EVERYONE

Games

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. Total FY10 contribution to the State's General Fund for all games was \$275 million.

- Traditional Games are divided into a number of subcategories and include a variety of play styles, payout scales, odds and price points for wide appeal. From multi-state mega jackpot games (POWERBALL® and MEGA MILLIONS®), to Delaware-only games (Multi-Win LOTTO and PLAY 3/PLAY 4) and everything in between (including FAST PLAY®), the Delaware Lottery offered online games that appealed to nearly all potential players in FY 2010. Instant Games continued to be extremely popular among players, contributing to a healthy portion of overall revenue.
- Video Lottery is now in its third decade of operation in the State of Delaware. Since Video Lottery operations began at Delaware Park and Dover Downs in 1995, the Lottery's contribution to the General Fund increased significantly. Delaware Park and Dover Downs now have more than 2,400 and 2,700 Video Lottery machines, respectively. Harrington Raceway, which began operating in 1996, now has over 1,800 Video Lottery machines. The Video Lottery has contributed over \$2 billion to the General Fund to date. Under the supervision of the Delaware Lottery, Video Lottery continues to be one of the most successful in the United States on a net-proceeds-per-machine basis.
- Sports Lottery debuted at Delaware Park, Dover Downs and Harrington Raceway & Casino in 2010 and all three venues now offer Parlay Wagering on professional football. Their Race and Sportsbooks offer state-of-the-art technology as well as live satellite broadcasts of every game from around the country. The Delaware Lottery's relationship with the racinos helps generate additional revenue while drawing non-residents to the state and helping defray the tax burden.

RETAILERS: RESPONSIBILITY & ACCESSIBILITY

The Delaware Lottery's network of Licensed Retailers consists of nearly 600 outlets throughout the State who are responsible for daily contact with players and the sale of Lottery tickets. From K-mart to your local convenience store, 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.

DELAWARE STATE LOTTERY
Statements of Revenue, Expenses, and Change in Net Assets
Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Revenue:		
Video lottery, net	\$ 547,702,096	578,982,656
Video lottery machine license fees	820,200	1,446,830
Video lottery expired jackpots and credit ships	372,794	707,766
Casino license fees	4,000,000	—
Sports lottery	10,815,721	—
Table games	2,998,441	—
Online games	86,852,584	86,701,779
Instant games	36,090,613	36,469,211
Total revenue	<u>689,652,449</u>	<u>704,308,242</u>
Cost of games:		
Video lottery commissions	220,291,319	265,774,363
Prize costs, net of reversions	72,536,611	66,796,659
Gaming vendor fees and costs	40,401,992	41,334,874
Online and instant games commissions	7,383,242	7,384,756
Sports lottery commissions	1,229,648	—
Table games commissions	1,981,969	—
Sales aids	37,890	60,591
Total cost of games	<u>343,862,671</u>	<u>381,351,243</u>
Gross profit	<u>345,789,778</u>	<u>322,956,999</u>
Operating expenses:		
Advertising and promotions	2,493,750	2,339,603
Payroll and related benefits	2,530,752	2,059,138
Other general and administrative	4,560,792	2,508,811
Depreciation expense	1,507	1,507
Total operating expenses	<u>9,586,801</u>	<u>6,909,059</u>
Operating income	<u>336,202,977</u>	<u>316,047,940</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	1,000,000
Contributions to the State of Delaware	331,609,108	311,836,851
Change in net assets	<u>593,869</u>	<u>211,089</u>
Net assets at beginning of year	406,131	195,042
Net assets at end of year	<u>\$ 1,000,000</u>	<u>406,131</u>

DELAWARE STATE LOTTERY
Balance Sheets
Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 16,038,328	4,709,131
Accounts receivable, net of allowance of \$724,864 and \$724,864, respectively	6,214,783	10,624,268
Investments – restricted for payment of prize liabilities	949,800	1,384,575
Total current assets	<u>23,202,911</u>	<u>16,717,974</u>
Noncurrent assets:		
Capital assets, net	2,260	3,767
Investments – restricted for payment of prize liabilities	1,066,645	1,900,984
Deposit with Multi-State Lottery	2,292,114	2,290,358
Total noncurrent assets	<u>3,361,019</u>	<u>4,195,109</u>
Total assets	<u>\$ 26,563,930</u>	<u>20,913,083</u>
Liabilities and net assets		
Current liabilities:		
Prizes liability, including \$949,800 and \$1,384,575, respectively, of prize installment obligations	\$ 4,545,869	5,142,849
Accounts payable and accrued liabilities	10,062,231	6,016,173
Due to the State of Delaware	6,510,182	4,600,763
Total current liabilities	<u>21,118,282</u>	<u>15,759,785</u>
Noncurrent liabilities:		
Multi-State Lottery reserve	2,292,114	2,290,358
Prize installment obligations, noncurrent	1,066,645	1,900,984
OPEB liability	1,086,889	555,825
Total liabilities	<u>25,563,930</u>	<u>20,506,952</u>
Net assets:		
Invested in capital assets	2,260	3,767
Unrestricted	997,740	402,364
Total net assets	<u>1,000,000</u>	<u>406,131</u>
Total liabilities and net assets	<u>\$ 26,563,930</u>	<u>20,913,083</u>

DELAWARE STATE LOTTERY
Statements of Cash Flows
Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Receipts from customers	\$ 694,062,734	708,624,010
Payments to vendors for goods and services	(46,454,161)	(46,538,179)
Payments to employees for services	(1,870,270)	(1,736,917)
Payments for prizes	(73,967,930)	(68,701,494)
Payments for commissions	<u>(226,101,182)</u>	<u>(276,591,029)</u>
Net cash provided by operating activities	<u>345,669,191</u>	<u>315,056,391</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)	(1,000,000)
Contributions to the State of Delaware	<u>(331,609,108)</u>	<u>(313,561,304)</u>
Net cash used in noncapital financing activities	<u>(335,609,108)</u>	<u>(317,561,304)</u>
Cash flows from investing activity:		
Proceeds from maturity of investments	<u>1,269,114</u>	<u>1,379,702</u>
Net cash provided by investing activity	<u>1,269,114</u>	<u>1,379,702</u>
Net increase (decrease) in cash and cash equivalents	11,329,197	(1,125,211)
Cash and cash equivalents at beginning of year	<u>4,709,131</u>	<u>5,834,342</u>
Cash and cash equivalents at end of year	<u><u>\$ 16,038,328</u></u>	<u><u>4,709,131</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 336,202,977	316,047,940
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	1,507	1,507
Changes in operating assets and liabilities:		
Accounts receivable, net	4,409,485	4,315,768
Deposit with Multi-State Lottery	1,756	(167,941)
Prizes liability	(1,431,319)	(1,904,835)
Accounts payable and accrued liabilities	<u>6,484,785</u>	<u>(3,236,048)</u>
Net cash provided by operating activities	<u><u>\$ 345,669,191</u></u>	<u><u>315,056,391</u></u>

PROMOTING RESPONSIBLE PLAY

The Lottery follows State of Delaware ethics guidelines and self-imposed standards in all its advertising, marketing and communications activities 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 more than \$2.3 million in fiscal year 2010 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, at point-of-purchase and in 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 Web site is designed to comply with the accessibility guidelines developed through the WAI (Web Accessibility Initiative) 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, DE, 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®

INSTANT GAMES

VIDEO LOTTERY

FAST PLAY®

MULTI-WIN LOTTO

TABLE GAMES

SPORTS LOTTERY



PLAYER INFORMATION LINE

For winning numbers and other Delaware Lottery information:

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

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

Or visit www.delottery.com

