



# MOVING AHEAD

*Delaware State Lottery*  
**2011 Annual Report**

*for the Fiscal Year Ending June 30, 2011*



## FROM THE DIRECTOR, VERNON KIRK

I'm proud to announce the Delaware Lottery set a new performance level for Fiscal Year 2011 by transferring more than \$287 million to the State's General Fund. The introduction of a new Traditional Lottery game and the growing popularity of Table Games and Sports Lottery were instrumental in maximizing the Delaware Lottery's contribution to the General Fund.

Because of its commitment to maintaining a superior level of accuracy and efficiency in its business operations, the Delaware Lottery was once again presented with the Certificate of Achievement for Excellence in Financial Reporting (CAFR) award. This marks the 12th consecutive year that the Lottery has been a recipient of the CAFR – the highest award in the area of governmental accounting and financial reporting.



Delivering on its mission to provide players with innovative and entertaining gaming products, the Delaware Lottery launched DELAWARE CASH 5® in February 2011. The newest game to be offered by the Lottery is also the second Delaware-exclusive cash jackpot game. DELAWARE CASH 5® quickly took its seat within the Delaware Lottery product matrix, enjoying strong sales out of the gate and helping to create more winners in Delaware.

Additionally, Table Games and Sports Lottery accumulated significant accomplishments in FY2011. Video Lottery and Table Games continued to generate income for the State of Delaware by driving traffic into racinos. Moreover, the Delaware Lottery achieved a milestone in Sports Lottery history, with a first-time \$100,000 Football Parlay Card winner and record total weekly sales topping \$1 million during the busiest period of the professional football season.

The Delaware Lottery also reinstated its annual XFingers Challenge, which is designed to recognize and show support and appreciation for the more than 550 Lottery Retailers throughout the state who play a key role in contributing to the State's General Fund. Moving forward, the Lottery continues to look to its Retailers as an important partner in our sales efforts.

On behalf of all of the staff at the Delaware Lottery, I thank everyone who has played a part in our ongoing success. Your continued support is critical in the years ahead as we look to explore new opportunities to enhance our product portfolio and we work towards reaching new goals. Together, we can improve every aspect of our business and continue to deliver added value to our partners and players.

A handwritten signature in blue ink that reads "Vernon A. Kirk". The signature is stylized and cursive.

Vernon A. Kirk  
*Director of the Delaware Lottery*

## 2011 AT A GLANCE

Maintaining its position as the fourth-largest source of revenue for the state, the Delaware Lottery ended its FY11 fiscal year on June 30, 2011, contributing \$287 million to the State's General Fund. Since 1975, more than \$3.6 billion has been transferred to the General Fund from Lottery proceeds.

Since 1975, the Lottery has...

- Generated more than \$10.5 billion in revenue
- Paid out more than \$1.4 billion in cash and other prizes to winners of traditional lottery games
- Contributed more than \$3.6 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 and to provide leadership and a corporate culture that encourages productive change in order to improve every aspect of the business. The Lottery accomplishes this through an enhanced product portfolio offering and by contributing all profits from ticket sales, Video Lottery operations, as well as a portion of Sports Lottery and Table Games profits, to the State's General Fund.

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 — the pool of dollars that supports many critical State

services. 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. These products include popular games such as POWERBALL®, MEGA MILLIONS®, DELAWARE CASH 5®, HOT LOTTO®, FAST PLAY®, Multi-Win LOTTO, PLAY 3, PLAY 4, assorted Instant Games, Video Lottery, Sports Lottery, and Table Games.

- Traditional Games are divided into a number of subcategories and include a variety of play styles, payout scales, odds and price points for a wide audience appeal. Multi-state mega jackpot games like POWERBALL® and MEGA MILLIONS® offer players a unique game matrix, large jackpots and increased overall chances to win. Delaware-only games such as Multi-Win LOTTO, PLAY 3/PLAY 4, and now DELAWARE CASH 5®, also offer top prizes and more importantly, help to create more winners and drive more revenue locally. As always, Instant Games remain extremely popular among players, accounting for a healthy portion of overall receipts totaling \$40.9 million in FY11.
- Video Lottery is in its second decade of operation in the State of Delaware. Since Video Lottery began at Delaware Park and Dover Downs in 1995, the number of terminals continues to grow and the Lottery's contribution to the General Fund has increased significantly. Delaware Park and Dover Downs host more than 2,400 and 2,700 Video Lottery machines, respectively. Harrington Raceway now has over 1,800 Video Lottery machines, bringing the total number of Video Lottery machines operating in the State of Delaware to more than 6,900. Additionally, the Delaware Lottery saw two large jackpots in FY11 on the Video Lottery game Ca\$hola,™ which paid out \$2,828,571 in cash at Delaware Park (September 2010) and \$2,927,899 in cash at Dover Downs (May 2011). 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 September 2009. In just two seasons, Sports Lottery's popularity has grown considerably. Parlay Wagering on professional football at each of the three venues has proven successful and profitable in FY11 with a first time \$100,000 Football Parlay winner and sustained total weekly sales levels over \$1 million during the peak of the season. The Delaware Lottery's relationship with the racinos generates additional revenue while drawing non-residents to the state and helping defray the tax burden.
- Table Games debuted May 2010 at Harrington Raceway and Casino with Delaware Park and Dover Downs following in June 2010. The Delaware Lottery works hand-in-hand with its racino and gaming vendors to ensure that the best and latest table games are available to the residents of Delaware and surrounding states. The Poker Rooms offer a wide variety of games and some of the best tournaments and promotions on the east coast. To date, Table Games and Video Lottery combined have contributed over \$2.7 billion in total revenue to the State's General Fund.

### **Availability and Accessibility**

The Delaware Lottery's network of Licensed Retailers consists of nearly more than 550 outlets throughout the State who are responsible for daily contact with players and the sale of Lottery tickets. From K-mart to Mike's Food Mart, 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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Revenue:		
Video lottery, net	\$ 499,457,285	547,702,096
Video lottery machine license fees	161,700	820,200
Video lottery expired jackpots and credit slips	371,830	372,794
Casino license fees	17,500,000	4,000,000
Sports lottery	12,910,308	10,815,721
Table games	74,165,548	2,998,441
Online games	83,082,950	86,852,584
Instant games	40,856,406	36,090,613
Total revenue	<u>728,506,027</u>	<u>689,652,449</u>
Cost of games:		
Video lottery commissions	201,430,519	220,291,319
Prize costs, net of reversions	75,846,095	72,536,611
Gaming vendor fees and costs	38,007,015	40,401,992
Online and instant games commissions	7,466,047	7,383,242
Sports lottery commissions	1,782,610	1,229,648
Table games commissions	49,023,428	1,981,969
Sales aids	—	37,890
Total cost of games	<u>373,555,714</u>	<u>343,862,671</u>
Gross profit	<u>354,950,313</u>	<u>345,789,778</u>
Operating expenses:		
Advertising and promotions	2,376,409	2,493,750
Payroll and related benefits	6,032,883	2,530,752
Other general and administrative	2,643,771	4,560,792
Depreciation expense	1,507	1,507
Total operating expenses	<u>11,054,570</u>	<u>9,586,801</u>
Operating income	<u>343,895,743</u>	<u>336,202,977</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	339,895,743	331,609,108
Change in net assets	<u>—</u>	<u>593,869</u>
Net assets at beginning of year	1,000,000	406,131
Net assets at end of year	<u>\$ 1,000,000</u>	<u>1,000,000</u>

DELAWARE STATE LOTTERY  
 Balance Sheets  
 Years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,184,429	16,038,328
Accounts receivable, net of allowance of \$733,877 and \$724,864, respectively	5,415,057	6,214,783
Investments – restricted for payment of prize liabilities	666,625	949,800
Due from State of Delaware	1,086,889	—
Total current assets	<u>13,353,000</u>	<u>23,202,911</u>
Noncurrent assets:		
Capital assets, net	753	2,260
Investments – restricted for payment of prize liabilities	448,259	1,066,645
Deposit with Multi-State Lottery	2,396,387	2,292,114
Total noncurrent assets	<u>2,845,399</u>	<u>3,361,019</u>
Total assets	<u>\$ 16,198,399</u>	<u>26,563,930</u>
Liabilities and Net assets		
Current liabilities:		
Prizes liability, including \$666,625 and \$949,800, respectively, of prize installment obligations	\$ 4,292,441	4,545,869
Accounts payable and accrued liabilities	4,678,765	10,062,231
Due to the State of Delaware	1,719,679	6,510,182
Total current liabilities	<u>10,690,885</u>	<u>21,118,282</u>
Noncurrent liabilities:		
Multi-State Lottery reserve	2,396,387	2,292,114
Prize installment obligations, noncurrent	448,259	1,066,645
OPEB liability	1,662,868	1,086,889
Total liabilities	<u>15,198,399</u>	<u>25,563,930</u>
Net assets:		
Invested in capital assets	753	2,260
Unrestricted	999,247	997,740
Total net assets	<u>1,000,000</u>	<u>1,000,000</u>
Total liabilities and net assets	<u>\$ 16,198,399</u>	<u>26,563,930</u>

DELAWARE STATE LOTTERY  
 Statements of Cash Flows  
 Years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Receipts from customers	\$ 729,305,754	694,062,734
Payments to vendors for goods and services	(43,326,353)	(46,454,161)
Payments to employees for services	(5,454,050)	(1,870,270)
Payments for prizes	(76,717,909)	(73,967,930)
Payments for commissions	(264,789,767)	(226,101,182)
Net cash provided by operating activities	<u>339,017,675</u>	<u>345,669,191</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	(345,773,135)	(331,609,108)
Net cash used in noncapital financing activities	<u>(349,773,135)</u>	<u>(335,609,108)</u>
Cash flows from investing activity:		
Proceeds from maturity of investments	901,561	1,269,114
Net cash provided by investing activity	<u>901,561</u>	<u>1,269,114</u>
Net increase (decrease) in cash and cash equivalents	(9,853,899)	11,329,197
Cash and cash equivalents at beginning of year	16,038,328	4,709,131
Cash and cash equivalents at end of year	<u>\$ 6,184,429</u>	<u>16,038,328</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 343,895,743	336,202,977
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	799,726	4,409,485
Deposit with Multi-State Lottery	(104,273)	1,756
Prizes liability	(871,814)	(1,431,319)
Accounts payable and accrued liabilities	(4,703,214)	6,484,785
Net cash provided by operating activities	<u>\$ 339,017,675</u>	<u>345,669,191</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 2011 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**  
**DELAWARE CASH 5®**

## 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  
Or visit [www.delottery.com](http://www.delottery.com)

