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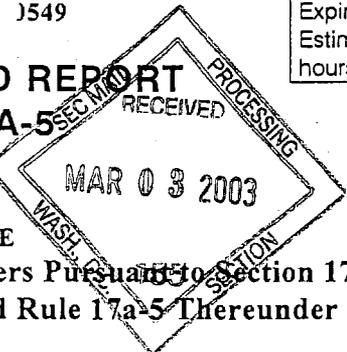
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ANNUAL AUDITED REPORT
FORM X-17A-5
PART III



SEC FILE NUMBER
8- 29755

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/02 AND ENDING 12/31/02
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:
DELAWARE DISTRIBUTORS, L.P.
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)
2005 MARKET STREET

OFFICIAL USE ONLY
FIRM I.D. NO.

(No. and Street)

PHILADELPHIA **PA** **19103**
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
BRYAN J. CASSADAY **(215) 255-1063**
(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

ERNST & YOUNG, LLP
(Name - if individual, state last, first, middle name)

2001 MARKET STREET **PHILADELPHIA** **PA** **19103**
(Address) (City) (State) (Zip Code)

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

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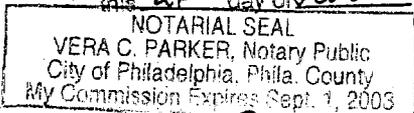
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THOMSON FINANCIAL

*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

OATH OR AFFIRMATION

I, JOSEPH H. HASTINGS, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of DELAWARE DISTRIBUTORS, L.P., as of DECEMBER 31, 2002, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

Sworn to and subscribed before me
this 26 day of February 2003



Joseph Hastings
Signature

SENIOR VICE PRESIDENT/TREASURER/CONTROLLER
Title

Vera C. Parker
Notary Public

This report ** contains (check all applicable boxes):

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in Financial Condition.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-3 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

Delaware Distributors, L.P.

Financial Statements and Supplementary Information

Years ended December 31, 2002 and 2001

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Report of Independent Auditors

To the Partners of
Delaware Distributors, L.P.

We have audited the accompanying statements of financial condition of Delaware Distributors, L.P. (the Partnership) as of December 31, 2002 and 2001, and the related statements of operations, changes in partners' capital, and cash flows for the years then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in 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 audits provide 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 Delaware Distributors, L.P. at December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I and II is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 of the Securities and Exchange Commission. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ernst & Young LLP

January 24, 2003

Delaware Distributors, L.P.

Statements of Financial Condition

	December 31,	
	2002	2001
	<i>(In thousands)</i>	
Assets		
Cash and cash equivalents	\$ 14,167	\$ 13,680
Deferred dealer commissions, less accumulated amortization of \$52,194 and \$42,141, respectively	53,812	70,639
Due from affiliated mutual funds	985	653
Due from affiliates	1,179	221
Other assets	1,952	1,838
Total assets	<u>\$ 72,095</u>	<u>\$ 87,031</u>
 Liabilities and partners' capital		
Liabilities:		
Accounts payable and accrued liabilities	\$ 2,286	\$ 4,044
Due to affiliates	4,265	4,039
Accrued salaries and related expenses	641	867
Total liabilities	<u>7,192</u>	<u>8,950</u>
 Partners' capital:		
General partner	649	781
Limited partners	64,254	77,300
Total partners' capital	<u>64,903</u>	<u>78,081</u>
Total liabilities and partners' capital	<u>\$ 72,095</u>	<u>\$ 87,031</u>

See accompanying notes.

Delaware Distributors, L.P.

Statements of Operations

	Year ended December 31	
	2002	2001
	<i>(In thousands)</i>	
Revenues		
Administrative fees	\$ 17,000	\$ 12,000
Commissions	6,581	7,070
Investment and other income	111	676
Loss on deferred dealer commissions	(2,591)	(2,136)
Total revenues	<u>21,101</u>	<u>17,610</u>
Expenses		
Salaries and related expenses	2,395	2,806
Amortization	25,217	27,745
Selling, general, and administrative	6,667	2,308
Total expenses	<u>34,279</u>	<u>32,859</u>
Net loss	<u><u>\$(13,178)</u></u>	<u><u>\$(15,249)</u></u>

See accompanying notes.

Delaware Distributors, L.P.

Statements of Changes in Partners' Capital

(Dollars in thousands)

	Delaware Distributors, Inc. (General Partner)	Delaware Investment Advisers Series (Limited Partner)	Delaware Capital Management, Inc. (Limited Partner)	Total
Percentage interest per partnership agreement	1%	98%	1%	100%
Balances as of December 31, 2000	\$ 934	\$ 91,462	\$ 934	\$93,330
Net loss for the year ended December 31, 2001	(153)	(14,943)	(153)	(15,249)
Balances as of December 31, 2001	781	76,519	781	78,081
Net loss for the year ended December 31, 2002	(132)	(12,914)	(132)	(13,178)
Balances as of December 31, 2002	<u>\$ 649</u>	<u>\$ 63,605</u>	<u>\$ 649</u>	<u>\$64,903</u>

See accompanying notes.

Delaware Distributors, L.P.

Statements of Cash Flows

	Year ended December 31	
	2002	2001
	<i>(In thousands)</i>	
Cash flows from operating activities		
Net loss	\$(13,178)	\$(15,249)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Amortization	25,217	27,745
Loss on deferred dealer commissions	2,591	2,136
Change in assets and liabilities:		
Due from affiliated mutual funds	(332)	236
Prepaid expenses and other current assets	(114)	1,251
Deferred dealer commissions	(10,981)	(17,125)
Due to/due from affiliates, net	(732)	4,001
Accounts payable and accrued liabilities	(1,758)	(3,402)
Accrued salaries and related expenses	(226)	(5,342)
Net cash provided by (used in) operating activities	<u>487</u>	<u>(5,749)</u>
Net increase (decrease) in cash and cash equivalents	487	(5,749)
Cash and cash equivalents at beginning of year	<u>13,680</u>	<u>19,429</u>
Cash and cash equivalents at end of year	<u><u>\$ 14,167</u></u>	<u><u>\$ 13,680</u></u>

See accompanying notes.

Delaware Distributors, L.P.

Notes to Financial Statements

December 31, 2002

(Dollars In thousands)

1. Business

Delaware Distributors, L.P. (the Partnership) is a registered broker-dealer and is the national distributor for affiliated mutual funds. The partners are Delaware Distributors, Inc. (1% General Partner), Delaware Investment Advisers Series of Delaware Management Business Trust (98% Limited Partner), and Delaware Capital Management, Inc. (1% Limited Partner), all of which are indirect wholly-owned subsidiaries of Delaware Management Holdings, Inc. (Holdings). Holdings, an indirect wholly-owned subsidiary of Lincoln National Corporation (Lincoln National), views the Partnership as an integral part of its investment management strategy.

The Partnership and other affiliated entities with which the Partnership does business are under common ownership and management control. The existence of this control could result in operating results or financial position of the Partnership significantly different from those that would have been obtained if the Partnership were autonomous.

2. Significant Accounting Policies

Deferred Dealer Commissions

Sales commissions paid to dealers in connection with the sale of shares of open-end affiliated mutual funds sold without a front-end sales charge are capitalized and amortized over a period, which approximates the period of time during which such commissions are expected to be recovered from distribution plan (12b-1) payments received from the applicable affiliated mutual funds and contingent deferred sales charges received from shareholders upon the redemption of their shares. Amortization of deferred dealer commissions includes amounts related to contingent deferred sales charges received. Realized gains and losses on deferred dealer commissions are determined based on the difference between the contingent deferred sales charge and the applicable carrying value.

Cash and Cash Equivalents

Cash and cash equivalents includes demand deposits and money market accounts in banks and other financial institutions and money market mutual funds.

Delaware Distributors, L.P.

Notes to Financial Statements (continued)

(Dollars in thousands)

2. Significant Accounting Policies (continued)

Taxes

Under the provisions of the Internal Revenue Code and applicable state and local tax regulations, the taxable income or loss of the Partnership is reported in the tax returns of the partners in accordance with the terms of the partnership agreement. Accordingly, no provision has been made in the accompanying financial statements for federal, state, or local taxes.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Selling, General, and Administrative Expenses

Selling, general, and administrative expenses are reflected net of 12b-1 plan payments received from the applicable Delaware Funds of approximately \$41,700 and \$47,100 for the years ended December 31, 2002 and 2001, respectively.

Reclassifications

Certain reclassifications have been made in the prior year financial statements to conform to the current year presentation.

Delaware Distributors, L.P.

Notes to Financial Statements (continued)

(Dollars in thousands)

3. Net Capital Requirements

The Partnership is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1) which requires the maintenance of minimum net capital and requires that the aggregate indebtedness to net capital, both as defined, shall not exceed 15-to-1. The Partnership's net capital, required net capital, and ratio of aggregate indebtedness to net capital were as follows:

	December 31,	
	2002	2001
Net capital	\$ 6,713	\$ 4,517
Required net capital	\$ 479	\$ 597
Ratio of aggregate indebtedness to net capital	1.07 to 1	1.98 to 1

4. Employee Benefit Plans

Effective April 1, 2001, the Partnership began participating in a defined contribution money purchase plan (the "Plan") sponsored by Holdings. The Partnership makes annual contributions to the Plan equal to 7.5% of a participant's eligible compensation, subject to Internal Revenue Service limitations. Prior to April 1, 2001, the Plan was structured as a profit-sharing plan, whereby the annual contribution was made on a discretionary basis. Expense related to the Plan totaled \$120 and \$150 in 2002 and 2001, respectively.

Effective April 1, 2001, the Partnership began participating in a 401(k) plan sponsored by Lincoln National. The Partnership makes matching contributions to the plan that are equal to a participant's pre-tax contribution, up to 6% of his or her eligible compensation, multiplied by a percentage, ranging from 50% to 150%, which varies according to certain incentive criteria as determined by Lincoln National's Board of Directors. Expense related to the 401(k) plan totaled \$60 and \$50 in 2002 and 2001, respectively.

Delaware Distributors, L.P.

Notes to Financial Statements (continued)

(Dollars in thousands)

5. Related Party Transactions

Administrative fees are received from affiliates.

Commissions income is comprised of net commissions relating to purchases and redemptions of shares of open-end affiliated mutual funds and other affiliated mutual funds and related products. Included are collections of contingent deferred sales charges of \$7,000 and \$7,700 for the years ended December 31, 2002 and 2001, respectively.

The Partnership has an agreement with Lincoln Financial Distributors (LFD), an indirect, wholly-owned subsidiary of Lincoln National, under which the Partnership engaged LFD to promote the sale of Delaware Funds through broker/dealers, financial advisors and other financial intermediaries. Included in selling, general, and administrative expenses are \$10,500 and \$10,800 related to the services provided under this agreement for the years ended December 31, 2002 and 2001, respectively.

In addition, the Partnership was charged selling, general, and administrative expenses of approximately \$5,800 and \$4,900 by affiliates for the years ended December 31, 2002 and 2001, respectively.

Supplementary Information

Delaware Distributors, L.P.

Schedule I—Computation of Net Capital Under Rule 15c3-1 of the
Securities and Exchange Commission

December 31, 2002

(Dollars in thousands)

Net capital	
Total partnership capital	\$ 64,903
Deductions:	
Total nonallowable assets	57,927
Other security haircuts	263
Net capital	<u>\$ 6,713</u>
Aggregate indebtedness	
Items included in Statement of Financial Condition:	
Total liabilities	<u>\$ 7,192</u>
Total aggregate indebtedness	<u>\$ 7,192</u>
Computation of basic net capital requirement	
Minimum net capital required	<u>\$ 479</u>
Excess net capital	<u>\$ 6,234</u>
Excess net capital at 1000% (net capital less 10% of aggregate indebtedness)	<u>\$ 5,994</u>
Ratio: Aggregate indebtedness to net capital	<u>1.07 to 1</u>
Reconciliation with Partnership's Computation (included in Part IIA of Form X-17a-5 as of December 31, 2002)	
Net capital, as reported in Partnership's Part IIA Focus Report (unaudited)	\$ 6,713
Net capital as calculated above	6,713
Difference	<u>\$ -</u>

Delaware Distributors, L.P.

Schedule II—Computation for Determination of Reserve Requirements
and Information for Possession or Control Requirements
Pursuant to Rule 15c3-3 of the Securities and Exchange Commission

December 31, 2002

The Partnership is not required to present the schedules “Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3” and “Information for Possession or Control Requirements Pursuant to Rule 15c3-3” as it meets the exemptive provisions of Rule 15c3-3, under Section (k)(2)(i) of the Rule.

Report of Independent Auditors on Internal Control Required by Rule 17a-5 of the Securities and Exchange Commission

To the Partners of
Delaware Distributors, L.P.

In planning and performing our audit of the financial statements and supplemental schedules of Delaware Distributors, L.P. (the Partnership) for the year ended December 31, 2002, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Partnership, including tests of such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Partnership does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Partnership in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons
2. Recordation of differences required by Rule 17a-13
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

The management of the Partnership is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Partnership has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's

authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Partnership's practices and procedures were adequate at December 31, 2002, to meet the SEC's objectives.

This report is intended solely for the information and use of the partners, management, the SEC, and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

January 24, 2003