

DELAWARE STATE LOTTERY

An Enterprise Fund of the State of Delaware



COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

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Prepared by:

The Finance and Accounting Department of the Lottery

Tina M. Leager

Senior Fiscal Administrative Officer

Delaware State Lottery

TABLE OF CONTENTS

INTRODUCTORY SECTION

	<u>PAGE</u>
LETTER OF TRANSMITTAL	2
PRINCIPAL OFFICIALS	18
ORGANIZATION CHART	19
CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING FOR FY 2018.....	20

FINANCIAL SECTION

REPORT OF INDEPENDENT AUDITOR.....	22
MANAGEMENT’S DISCUSSION AND ANALYSIS	24
BASIC FINANCIAL STATEMENTS	
STATEMENTS OF NET POSITION AS OF JUNE 30, 2019 AND 2018	30
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2019 AND 2018	31
STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2019 AND 2018	32
NOTES TO FINANCIAL STATEMENTS, JUNE 30, 2019 and 2018	33
REQUIRED SUPPLEMENTARY INFORMATION	51

STATISTICAL SECTION

TABLE OF CONTENTS.....	54
EXHIBIT I – NUMBER OF FULL-TIME EQUIVALENT EMPLOYEES	55
EXHIBIT II – NUMBER OF RETAILERS/AGENTS	55

TABLE OF CONTENTS (cont'd)

EXHIBIT III – STATE OF DELAWARE DEMOGRAPHIC AND ECONOMIC STATISTICS	56
EXHIBIT IV – SCHEDULE OF CHANGE IN NET POSITION (last 10 years)	57
EXHIBIT V – CONSOLIDATED GROSS REVENUE	58
EXHIBIT VI – INSTANT GAMES GROSS REVENUE	58
EXHIBIT VII –TRADITIONAL DRAWING GAMES GROSS REVENUE	59
EXHIBIT VIII – VIDEO LOTTERY GROSS REVENUE	59
EXHIBIT IX – I-GAMING GROSS REVENUE	60
EXHIBIT X – TABLE GAMES GROSS REVENUE	60
EXHIBIT XI – SPORTS LOTTERY REVENUE & HOLD	61
EXHIBIT XII – TRADITIONAL LOTTERY PRIZES AWARDED TO PLAYERS	61
EXHIBIT XIII – OPERATING EXPENSES.....	62
EXHIBIT XIV - CASH CONTRIBUTIONS TO STATE GENERAL FUND.....	62
EXHIBIT XV – DELAWARE LOTTERY STATISTICS SINCE 1976	63

U.S. LOTTERY STATISTICS

EXHIBIT XVI - FISCAL YEAR 2019 & 2018 COMPARISON OF U.S. SALES BY GAME.....	64
EXHIBIT XVII - FISCAL YEAR 2018 U.S LOTTERY SALES BY GAME	65
EXHIBIT XVIII - FISCAL YEAR 2019 U.S. LOTTERY SALES BY GAME	66

INTRODUCTORY SECTION



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DEPARTMENT OF FINANCE
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November 1, 2019

The Honorable Rick Geisenberger
Secretary of Finance,
State of Delaware

INTRODUCTION

We are pleased to submit to you this Comprehensive Annual Financial Report of the Delaware State Lottery for the fiscal year ended June 30, 2019. This report has been prepared by the Finance and Accounting Department of the Lottery.

Responsibility for both the accuracy of the financial data and the completeness and fairness of the presentation, including all disclosures, rests with the Delaware State Lottery. To the best of our knowledge and belief, the data presented is accurate in all material respects and is reported in a manner designed to present fairly the financial position, results of operations, and cash flows of the Lottery. All disclosures necessary to enable the reader to gain an understanding of the Lottery's financial activities have been included.

This Comprehensive Annual Financial Report is presented in three sections, as outlined below:

The Introductory section is comprised of this transmittal letter, a list of principal officials, an organization chart and a copy of the Certificate of Achievement for Excellence in Financial Reporting for the year ended June 30, 2018.

The Financial section begins with the independent auditors' report followed by management's discussion and analysis and then by the Lottery's audited financial statements and accompanying notes for the years ended June 30, 2019 and 2018.

The Statistical section presents trends of financial and other relevant data. It includes data on the Delaware State Lottery and certain data pertaining to the United States Lottery industry.

REPORTING ENTITY

OVERVIEW:

The Reporting entity is the Delaware State Lottery (the Lottery). The Lottery operates traditional lottery games, video lottery, sports lottery and table games such as blackjack and poker, and internet gaming for video and tables (I-Gaming). This report includes only activity of the Lottery and does not include data or information related to any other state agency or fund.

LOTTERY MISSION STATEMENT:

To maximize revenue contributions to the State's General Fund, thereby helping to fund the delivery of governmental services to the people of Delaware:

- Through the marketing, sale and distribution of innovative, entertaining and secure Lottery products that ensure the public's confidence in the integrity of the games, retailers, agents, and Lottery operations, and
- By providing leadership and a corporate culture that encourages productive change leading to improvement in every aspect of the business.

TRADITIONAL LOTTERY:

The Lottery was established by enabling legislation signed into law on May 31, 1974, by the Governor of the State of Delaware and placed under his Executive Office. On July 7, 1976, the Lottery was transferred from the Office of the Governor to the Department of Finance.

This enabling legislation, which established the traditional lottery, placed the operation of the lottery under the supervision of a Director. The Director has the power and duty to establish rules for conducting games, including the type and number of games, the price of tickets, the number and amounts of winning tickets, the manner of prize payment, frequency of drawings, locations and methods for the sale of tickets, procedures for licensing of retailers and all other functions related to the operations of the lottery. The legislation provided that at least 45 percent of total revenue shall be used to pay prizes, operating expenses shall not exceed 20 percent of total revenue and up to 30 percent of total revenue will be paid to the General Fund of the State of Delaware.

TRADITIONAL LOTTERY PRODUCTS

INSTANT GAMES

Instant tickets were introduced in February 1976. These games are easy to play since all that is required is to scratch the latex covering off the play area on the ticket. If the correct combination appears, the player becomes an instant winner. The Lottery currently has a wide variety of instant game themes and ticket prices by game.

PLAY3®

Play 3 was the first traditional drawing game introduced by the Lottery in January 1978. Players pick three numbers from 0 to 9 and choose among nine different play options. Players also have the option of selecting

for a “Day” or a “Night” drawing. “Day” drawings are held Monday through Saturday and “Night” drawings are held seven nights a week. Odds of winning and payouts vary depending on the selected option.

PLAY4[®]

Play 4 was introduced in January 1980. Players pick four numbers from 0 to 9 and choose among five different options. Players also have the option of selecting for a “Day” or a “Night” drawing. “Day” drawings are held Monday through Saturday and “Night” drawings are held seven nights a week. Odds of winning and payouts vary depending on the selected option.

MULTI-WIN LOTTO

Lotto was first introduced in April 1983 with a “6 of 30” matrix. The jackpot prize for picking all six correct numbers out of 30 was paid as an annuity over a maximum of twenty years. In July 1984, an EZ pick option, which gave players the choice of having the computer pick all or some of the numbers to be played, was added. Multi-Win Lotto was created during January 2005, replacing the Lotto game. The matrix changed to “6 of 35”. Tickets cost \$2 with each ticket giving players three lines of play. A prize can be won by matching three, four, five or six numbers straight across on any of the three lines of numbers. Players can also win by combining number matches from all three lines. This is accomplished by matching a total of at least six numbers from the three lines. Drawings for Multi-Win Lotto are held on every Monday, Wednesday and Friday.



Powerball is a traditional lottery drawing game jointly operated by multiple lotteries of throughout the United States. (Please see Note 6 of the Notes to Financial Statements in the “Financial Section” of this report for a further description of MUSL). In its current form, Powerball has a matrix of “5 of 69” for the first set and a matrix of “1 of 26” for the second (Powerball) set. Players have the option of receiving the jackpot as an annuity over 29 years or receiving the present value of the annuity stream in cash. A Powerball ticket costs \$2. The minimum jackpot offered is \$40 million. There are eight prize levels up to \$2 million. Drawings are held every Wednesday and Saturday. The jackpot amount increases for each drawing if no winning ticket matches the first set of five numbers and the Powerball number of the second set. An additional feature of the Powerball game is the Power Play option. Players can wager an additional \$1 for each Powerball game that they chose to play. If they win, they’re guaranteed to win the set Power Play prize amount. Power Play does not apply to the jackpot.



During January 2010, the Lottery began to sell tickets for Mega Millions, one of the country’s biggest traditional lottery drawing jackpot game. Changes made in fiscal year 2018, included: starting jackpot of \$40 million, tickets cost \$2 per play and players select five different numbers from 1 to 70 from one pool of numbers, and one Mega Ball number from 1 to 25. Lottery players also can wager an additional \$1 to activate the Mega plier option, which could multiply their non-jackpot prize by 2X – 5X. Players win the jackpot by matching all six numbers in a drawing. Drawings are held on Tuesday and Friday nights.

In January 2013, Keno was launched. Keno is an easy, fun and fast-paced traditional lottery drawing game that allows you to choose how many numbers to play and how much money to wager. Keno is played using a field of numbers from 1 to 80. You may choose up to 10 numbers in that field. The Lottery’s computer continuously generates random sets of 20 numbers. These numbers are then displayed on the Keno monitor. There are a variety of ways to win based on matching some, all, or in some cases, none of the numbers. Keno is available daily from 6:04 a.m. to 12:04 a.m. Drawings take place every four minutes.

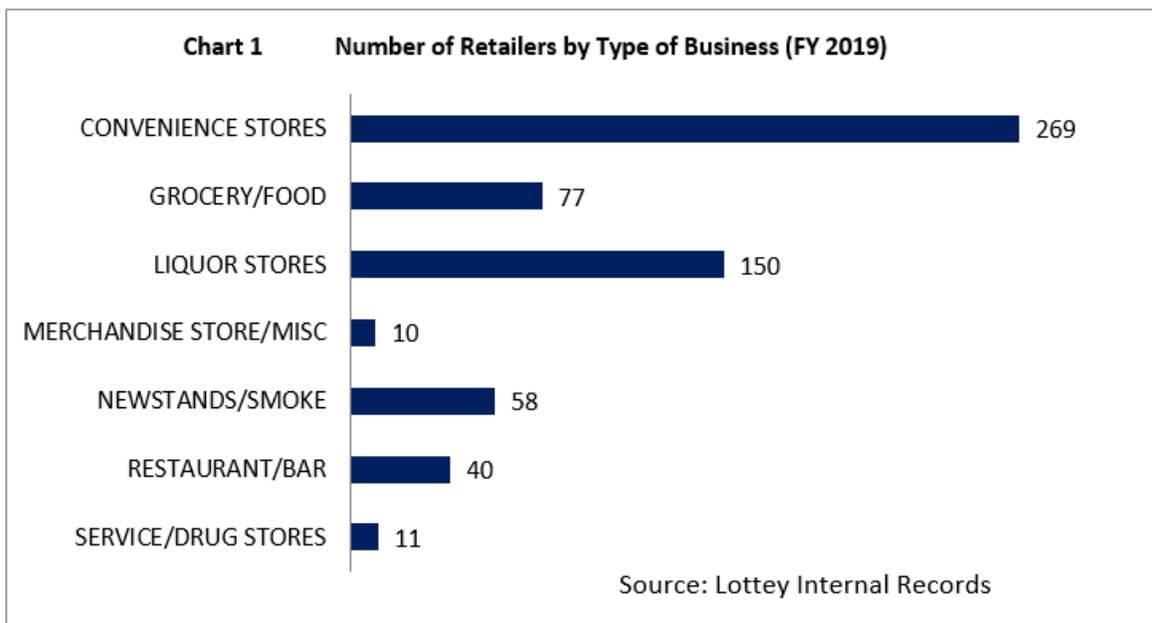


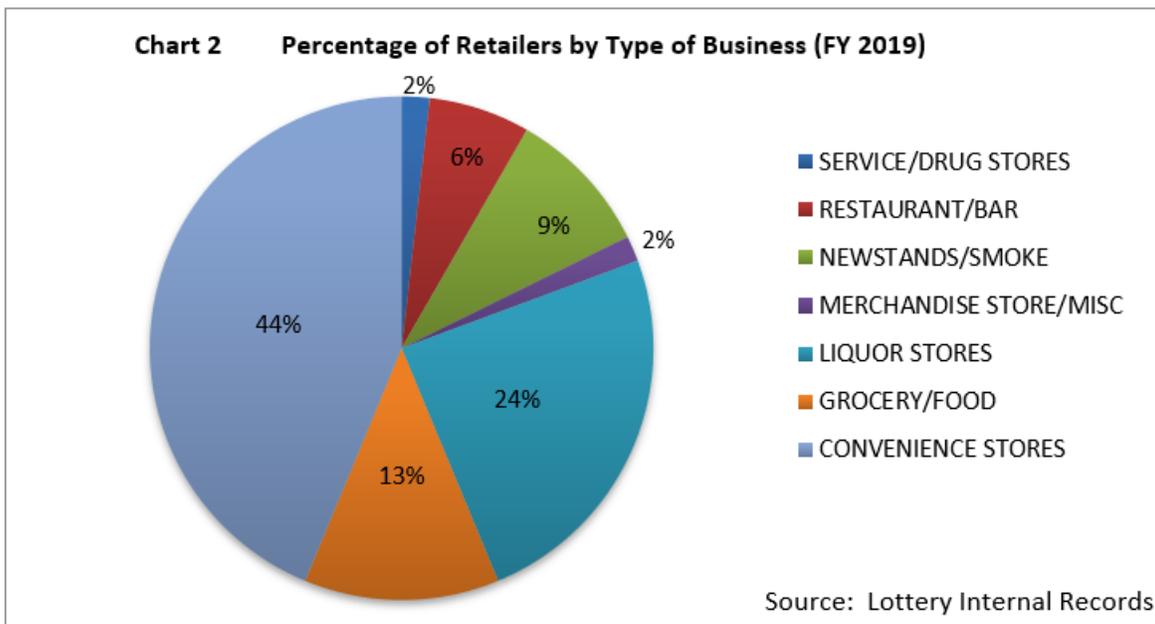
In February of 2015, Delaware joined a game called Lucky for Life. A total of 26 other states have combined their sales on this multi-state game. The top prize for this game is \$1,000 a day for life. The second prize is \$25,000 a year for life. Players select five numbers from 1 to 48 plus one number from 1 to 18 for the “Lucky” ball. The ticket cost \$2 and there are 8 set prizes in the pool ranging from \$4 to \$5,000. Drawings are held every Monday and Thursday nights.



In 2017, Delaware joined a multi-state game called Lotto America. Lotto America cost \$1 to play, selecting five numbers 1 to 52 for the red balls, then selecting one number from 1 to 10 for the Lotto America Star Ball. Lotto America’s Grand Prize starts at \$2 million and increases by a minimum of \$50,000 per draw until it is won. Players win the Grand Prize or one of 8 sets of cash prizes matching one of the 9 ways to win. For an addition \$1 per play, the Lotto America All Star Bonus can multiply winnings by 2, 3, 4, or 5 times. The multiplier number is randomly selected just before each drawing. The All-Star Bonus does not apply to the Grand Prize.

Retailer Data:





On July 16, 1994, enabling legislation called the “Horse Racing Redevelopment Act” (the Act) was passed by the General Assembly of the State of Delaware allowing the three existing racetracks (agents), upon license approval, to implement video lottery machines within their facilities. The purpose of the Act was to increase the economic activity and vitality of Delaware’s Standardbred and Thoroughbred horse racing industries. The Act authorized the operation of a maximum of 1,000 video lottery machines at each racetrack.

The Act covered all aspects of video lottery operations by setting into law the parameters by which the tracks could operate in Delaware. The Act also placed the Delaware State Lottery Office and its Director fully in charge of both implementation and oversight of operations as set forth by the legislation and authorized the creation of the Video Lottery Enforcement Unit to administer the security and law enforcement provisions of the Act and to conduct background investigations. In 2010, the Division of Gaming Enforcement was created under the Department of Safety and Homeland Security to replace the Video Lottery Enforcement Unit.

Consequently, the Delaware State Lottery Office established certain rules and regulations to be followed by the agents and gaming machine providers concerning:

- Licensing of agents and gaming machine providers
- Duties of agents and gaming machine providers
- Game requirements
- Transportation, registration, location and maintenance of video lottery machines
- Standards of operation

- Standards for advertising, marketing and promotional materials
- Payout percentages to players as established by law

The Lottery also developed a methodology for distributing video lottery revenue net of payments to players in accordance with the legislation. Based on weekly calculations, payments are made to the State General Fund and to the Department of Agriculture to be used for purse increases at the tracks and to the vendors of the gaming machines. The balance is returned to the agents as commissions.

Video lottery operations officially began on December 29, 1995 at Delaware Park and Dover Downs with 715 and 500 gaming machines, respectively. On August 20, 1996, Harrington Raceway opened its doors to the public with an initial count of 500 video lottery machines.

The enabling legislation, as mentioned above, contained a sunset clause, which would have terminated the Act after five years from March 15, 1995, if the legislation was not extended or reenacted. On March 26, 1998, the Act was re-authorized, and the sunset provision was revoked. Among other provisions, this legislation also authorized the operation of an additional 1,000 video lottery machines at each racetrack, bringing the total allowable machines at each track to 2,000. Additional legislation was passed on June 13, 2003, which permits the Lottery Director to authorize 500 additional video lottery machines at each licensed racetrack, bringing the total allowable machines at each track to 2,500. Again, on January 19, 2006, legislation was passed to increase the maximum number of video lottery machines at each racetrack from 2,500 to 4,000. As of June 30, 2019, there were 2,288 machines at Delaware Park, 2,219 machines at Dover Downs and 1,726 machines at Harrington Raceway.

There are three types of video lottery machines in operation currently – mechanical reel, video display, and multi-player automated table machines. Wagering limits vary from 1 cent to a maximum of \$100.

In July 2013, new legislation allowed fraternal or veterans organization with national affiliation or an organization whose membership consists primarily of veterans honorably discharged or active duty service member to operate charitable video lottery machines within their organizations upon approval from the Director of the Lottery. There are currently 48 Charitable Gaming Organizations with over 450 machines operating throughout the state.

More legislative changes were made based on the recommendations of the Lottery & Gaming Study Commission created by the General Assembly changing the initial methodology of video revenue distribution. Effective July 1, 2014, 75% of certain video lottery equipment costs will be deducted from net revenue prior to the calculation of the State's share of revenue. Effective July 1, 2018, legislation authorized the decrease in state share by 1% and increasing the purse shares for the Standardbred and Thoroughbred industry operating in Delaware



On May 12, 2009, enabling legislation was passed by the General Assembly of the State of Delaware requiring the Lottery Director to use his or her authority to reestablish a sports lottery, in order to enhance the Delaware Lottery, protect Delaware employment, and provide additional revenues for the State. The sports lottery authorization excluded collegiate sporting events that involve a Delaware college or university, as well as prohibiting persons under the age of 21 from participating in the sports lottery. The Governor signed the

legislation into law on May 12, 2009. In reestablishing the sports lottery, the bill took advantage of an exemption granted to the State of Delaware under federal law, namely the 1992 Professional and Amateur Sports Protection Act, which allows the states of Delaware, Nevada, Oregon, and Montana to engage in sports betting. The bill authorized the conduct of sports lottery only at the three casinos presently operating. Proceeds from the conduct of sports lottery at the casinos would be divided equally between the casinos and the State. The bill imposed a collective annual license fee of \$4,000,000, which is divided among the three casinos in proportion to each property's percentage of the State's total video lottery net proceeds. This fee was eliminated in fiscal year 2012 with the passage of House Bill 333, The Delaware Gaming Competitiveness act of 2012. The Delaware Lottery proceeded to promulgate rules and regulations for the sports lottery and engaged a vendor to provide a sport wagering system, selling terminals and risk management.

In response to an action brought by the National Football League (NFL), citing language from the 1992 Professional and Amateur Sports Protection Act, in late August 2009 a three-judge panel of the 3rd U.S. Circuit Court of Appeals limited the Delaware Sports Lottery to only parlay bets of three or more selections of at least three separate NFL games in a single wager.

On September 10, 2009, sales began for the Delaware Sports Lottery. The Lottery offered “off-the-board” parlay wagering as well as traditional parlay type cards, including a ½ point card, a teaser card and a super teaser card. A special card was introduced mid-season in which a customer had to select 15 games from that week’s schedule, with a \$100,000 payoff for picking all games correctly.

Sports Lottery continued to expand gaming options for the 2011 season by introducing halftime wagers at the beginning of the season. Prior to the playoffs, pro football championship futures wagers were also added. For halftime wagers, point spreads were adjusted at halftime but still applied to the final score of the game and not to second half scoring alone. Futures wagers allowed players to bet on a team to win the Championship Game. To win a futures wager, a player’s team must win three games: at least two playoff games and the Championship game. Totals (Over/Under) wagers were introduced for the 2013/2014 season. This is a wager based on the combined amount of points scored by both teams during the game, including overtime.

As a result of the passage of House Bill 333, The Delaware Gaming Competitiveness Act of 2012, Sports Lottery was expanded into retail locations in time for the 2012/2013 pro football season. Initially, 31 Sports Lottery retail locations were established throughout the State and currently extended to over 100 retailers. On June 5, 2018, the Delaware Lottery became the first to offer full-scale sports betting, this side of the Mississippi, due to the Supreme Court’s decision to strike down a 1992 federal law that banned commercial sports betting in most states.



On January 15, 2010, enabling legislation was passed by the General Assembly of the State of Delaware authorizing the introduction and operation of table games by the Delaware Lottery at licensed video lottery agents. On January 28, 2010, the legislation was signed into law by the Governor. Like video lottery, table games are offered on the premises of Delaware's video lottery agents. The Delaware Lottery was given administrative and regulatory oversight of table games, including determining which table games (blackjack, craps, roulette, poker, etc.) would be played, as well as establishing regulations for the effective management of the games.

Proceeds from the operation of the table games are paid to the Delaware Lottery, which keeps a portion of those proceeds to cover its administrative expenses and its law-enforcement and security expenses, as well as an amount to fund programs for the treatment, education and assistance of compulsive gamblers, with the remainder contributed to the State General Fund.

This bill also imposed a license fee structure that will reward video lottery agents for making capital investments by allowing them to reduce the annual license fee by up to 50% to account for the cost of capital projects, and that reduces the total license fee further if the video lottery agents are able to achieve certain table gaming revenue annual targets. As such, this bill promotes capital investment by video lottery agents, encourages the video lottery agents to achieve reasonable revenue targets, and creates additional new employment opportunities. This bill also authorized the creation of a Lottery Commission, which would have responsibility for conducting hearings on disputed licensing and exclusion matters. Additionally, the bill authorized the creation of the Division of Gaming Enforcement in the Department of Safety and Homeland Security. Replacing the Video Lottery Enforcement Unit, the Division would consist of Delaware State Police investigators, responsible for investigating table gaming crimes, as well as the background checks.

Effective July 1, 2019, legislation passed reducing the state share of table games revenue from 29.4% to 15.5%. The bill also suspended the license fees due for fiscal year 2020 in exchange for providing proof of qualified investments by video lottery agents in the competitiveness of its facilities and business.



I-GAMING - (INTERNET VIDEO LOTTERY & INTERNET TABLE GAMES)

During fiscal year 2014, the Lottery was tasked with continuing the implementation of House Bill 333, The Delaware Gaming Competitiveness Act of 2012. One of the four main components was the authorization of casino style internet wagering. The Lottery launched the nation's first full-scale internet casino and poker offering in October of 2013. This included three internet casinos, one associated with each of the State's licensed video lottery agents, Delaware Park, Dover Downs, and Harrington Raceway. Delaware's internet gaming also introduced the nation's first "shared liquidity" poker network, allowing players from multiple Delaware internet casinos to sit in one common poker room and play against each other. In fiscal year 2015, the Delaware and Nevada governors signed a Multi-State Internet Gaming Licensees' Agreement to start a "shared liquidity" between the two states. Poker tables opened in March 2015 allowing players from Nevada and Delaware to sit at the same internet poker table. The lottery office added a second vendor to supply game content on our I-gaming platform and launched a mobile application to allow internet gaming through mobile devices in fiscal year 2016. In May 2018, the Multi-State Internet Gaming Licensees' Agreement was amended to add New Jersey.

ECONOMIC OUTLOOK

U.S. LOTTERY INDUSTRY:

Based on statistics compiled by *LaFleur's*, a gaming industry publication, total unaudited lottery sales for U.S. lotteries increased 6% to \$80.8 billion in fiscal year 2019, an increase of \$4.8 billion. The Wyoming Lottery led the industry with a 31% increase in total lottery sales in fiscal year 2019. Forty-four U.S. Lotteries posted an increase in sales growth for traditional lottery in fiscal year 2019. The New York Lottery ranked first in gross traditional sales at \$8.2 billion. The Massachusetts Lottery ranked first in per capita total sales at \$792.

Total U.S instant ticket sales increased 4% to \$50.1 billion, up \$2.1 billion in additional instant sales over previous year. The Massachusetts Lottery ranked first in per capita instant sales at \$532. The California Lottery ranked first in gross sales of \$5.2 billion. The West Virginia Lottery ranked first with an 17% increase in fiscal year 2019 instant sales over fiscal year 2018.

The traditional lottery sales increase had a big part to do with the \$1.5 billion Mega Millions jackpot won in October 2018.

MAJOR INITIATIVES

GENERAL:

After the completion of fiscal year 2019 the Delaware Lottery has distributed over \$5.4 billion to the State General Fund. Since the commencement of video lottery and table games, The Delaware Lottery has contributed \$36.9 million to the Department of Health and Social Services to help fund initiatives that address problem gambling in Delaware.

The Delaware Lottery was ranked 25th out of 44 U.S. lotteries in total traditional lottery sales and finished 8th in per capita sales. The Delaware Lottery ranked 27th in per capita instant sales and placed 38th in overall change in instant sales. The Delaware Lottery ranked 30th out of 44 states in draw sales and ranked 8th in per capita sales.

VIDEO LOTTERY:

Video Lottery net proceeds for FY2019 totaled more than \$365 million.

The Lottery extended its contract with Gaming Labs International (GLI) for Video Lottery testing, inspection, and consulting services for one year. Existing contracts with vendors who provide Video Lottery Terminals (VLTs) were extended for two years. The Lottery worked with Scientific Games to upgrade the central system in late 2018, improving security and reporting capabilities of the State's 6200 VLTs.

The MegaHits progressive multi-state program was terminated and thirteen MegaHits IGT machines were removed from the State in July 2018. The remaining funds will be distributed in FY20 to IGT players through a variety of exciting promotions.

There are 497 Charitable VLTs operating in 48 approved Charitable Gaming Organizations.

In fiscal year 2019, there were ten winners of VLT jackpots over \$50K; two of them were over \$100K.

TABLE GAMES:

Fiscal Year 2019 is the ninth full year for Table Gaming operations in the state. Request for changes to the Internal Controls from the venues were submitted. These change requests range from 22 new games to modifications that involved their operation processes. Between the three venues over 150 gaming tournaments were held. These tournaments were made up of Poker, Black Jack and Craps. There is an ongoing process for updating the Internal controls to keep up with any changes to the Lottery Minimum Internal Controls. These

changes can be created due to new games being introduced, as well as changes in the Gaming Laws. The three venues offer a total of 38 Poker Table and 103 Gaming Tables. This number is lower than FY 2018 due to adjustments in the ongoing demand and the recent opening of neighboring venues. The venues continue to provide the latest games to the public. Delaware Park continue to update the gaming floor with the latest games that are available. Along with new games they are working on ways to update the facility for the enjoyment of the patrons. They held over 60 poker tournaments. Dover Downs began the process of a merger with Twin Rivers Casino located in Rhode Island. This process involved the review of their Internal Controls to make sure they were up to date and to meet with Twin Rivers to review what is expected of them for gaming in Delaware. Harrington offers a Match Play/ Free Play program for their Table Gaming patron which has gone over well. There have been some updates to their gaming floor with the addition of some new games. Harrington continues to offer daily Poker Tournaments and yearly Black Jack Tournaments.

MARKETING AND SALES MANAGEMENT:

This fiscal year the Delaware Lottery launched a new rewards program called Collect 'N Win; where players 18 and older can earn entries to win monthly cash prizes just by entering eligible, non-winning Delaware Lottery tickets. Players collect symbols for their Delaware lottery Collect 'N Win play card. Once all six symbols are collected, they will be automatically entered to win monthly cash prizes. Players can download the Collect 'N Win app directly in the Apple store and its available for Android users downloaded directly from delottery.com. Since launch, the Collect 'N Win registered players has grew to over 12,000 participants.

The Lottery's new Advanced Entertainment Games Information System (AEGIS) continued with new releases throughout FY19 to deliver promotional opportunities and expanded reporting capabilities. This new system is tied to the Lottery's strategic plan to enhance the opportunity to offer technology and initiatives that will support the responsibly to increase revenue for the State of Delaware and its beneficiaries. As a result of the implementation to the new system, the Lottery was able to acquire new state-of-the-art, self-service, Player High Definition (PHD) machines. The PHD machines were placed in all of the Delaware Wawa locations and all Royal Farms. The addition of the PHDs brought in an extra \$17.6 million in revenue to the state.

Also, during fiscal 2019, we launched a new Licensed Property Instant Ticket – Willy Wonka Golden Ticket. The game had a second chance prize built in where one lucky Delaware winner was selected to win a trip to Las Vegas and have an opportunity to play the BILLION DOLLAR CHALLENGE™ on April 16th, 2019, with a chance to win up to \$1 Billion! The trip to Las Vegas included a 4-day/3-night trip for two; round-trip airfare; deluxe accommodations; ground transportation at destination; \$1,000 spending money; admission to the BILLION DOLLAR CHALLENGE™ theater/venue for the Prizewinner and guest with a chance for the Prizewinner to participate in the BILLION DOLLAR CHALLENGE™ along with a group of Lottery winners from across the United States.

Delaware Lottery's marketing programs maintained its long-standing sponsorships with University of Delaware, Delaware State University, Wilmington Blue Rocks and the Delaware 87ers, participating in a variety of cooperative sports programs conducted during the spring and winter sports seasons. In addition, the Lottery continued sponsorships with the Delaware State Fair as well as participating in more recent associations with such diverse events as the Out and About Loop Series, Wyoming Peach Festival, Milford Bud & Bug Festival, Saint Anthony's Italian Festival, Dover Days and The Lady Bug Festival.

FUTURE AND ON-GOING PROJECTS

OVERALL:

- Continue to grow, expand and optimize the traditional lottery retailer network.
- Maintain regulatory oversight and control of the video and sports lottery gaming systems.
- Provide administrative and regulatory oversight of licensed Charitable Gaming Organizations.
- Provide constant onsite regulatory oversight of table game operations at the three video lottery facilities.
- Provide the public with games that are fun, easy and exciting to play.
- Explore new lottery gaming opportunities allowing Delaware to stay competitive with neighboring states.
- Continue monitoring and improving internal controls and accounting practices and policies.

VIDEO LOTTERY:

- A request to revise current Video Lottery statute was submitted for consideration.
- Exploring options for bringing additional VLT vendors into Delaware to provide an even greater variety of games for our players!

TABLE GAMES:

- Dover Downs is currently going through a major reconfiguration of their gaming floor. This process involves the moving of Video Lottery machines and Table Games. The lottery is present during this process to make sure all regulations are followed for the placement of tables, machines and surveillance cameras.

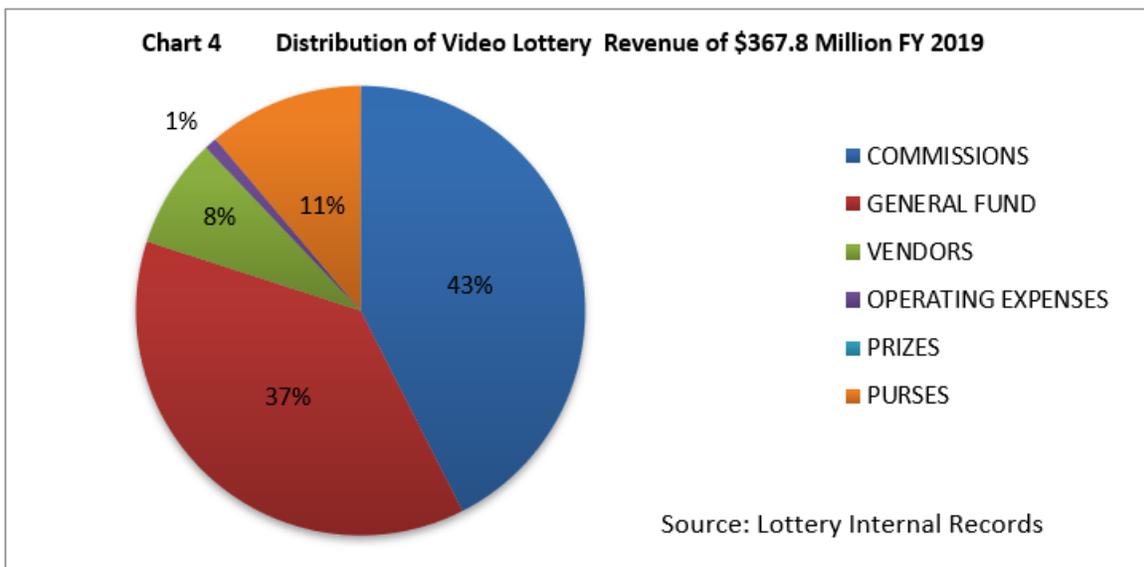
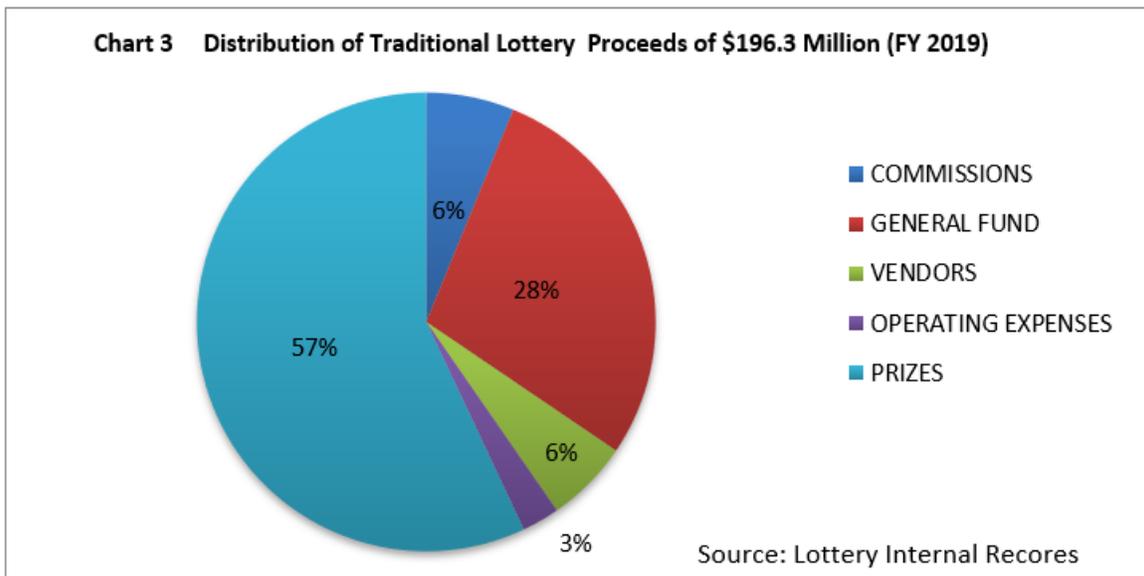
MARKETING AND SALES MANAGEMENT:

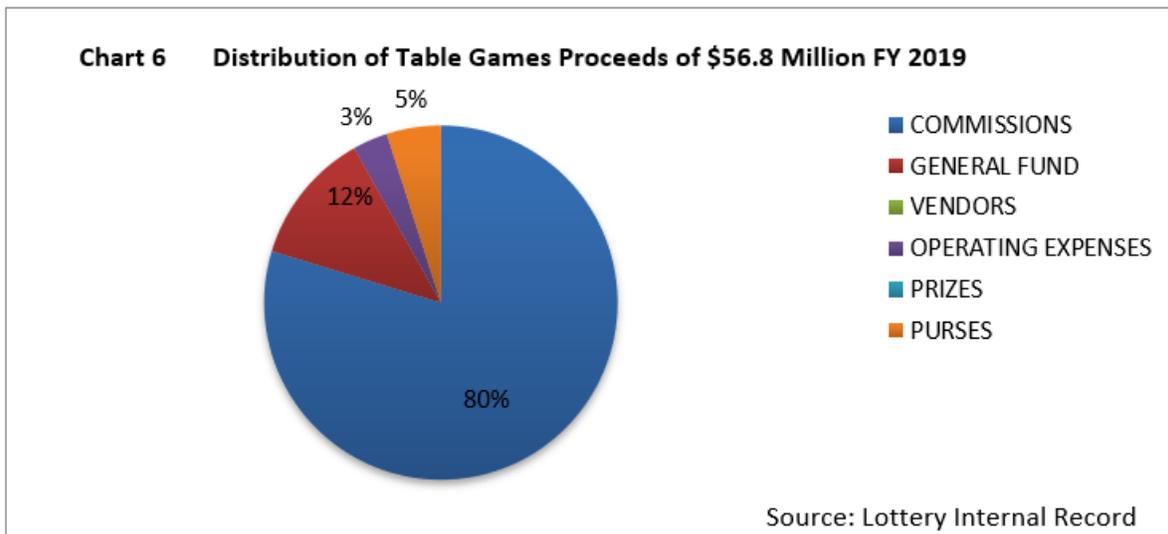
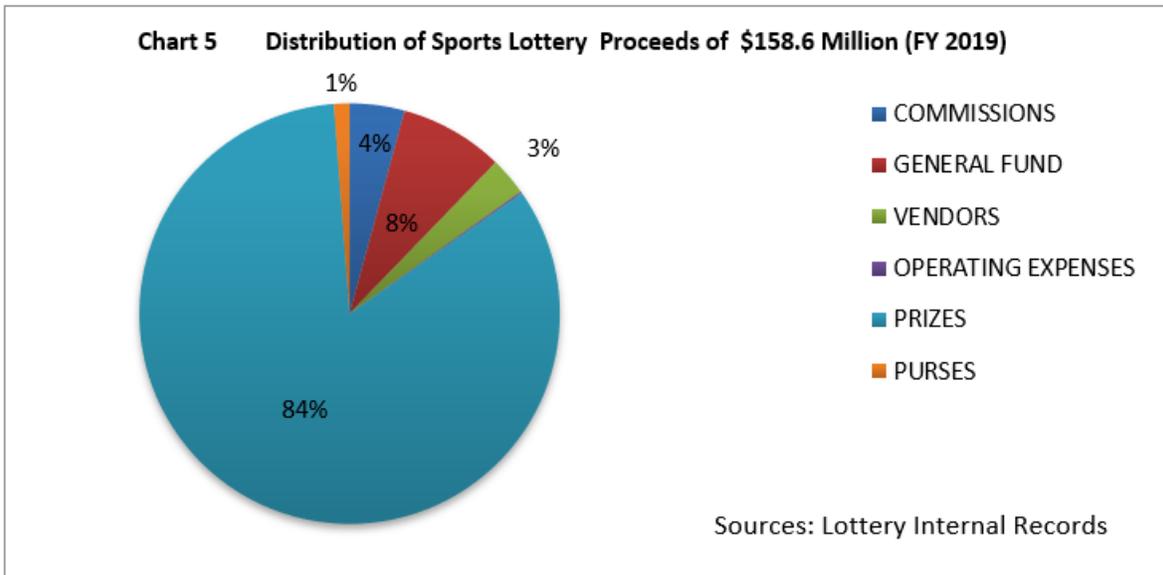
- Continue the expansion of our retailer network by actively recruiting new and unique trade styles.
- Expand retailer network to grow Keno sales.
- Leverage sponsorship assets in communication with players and non-players.
- Continue to develop effective mass media and alternative media advertising programs including digital and social.
- Continue to effectively use “cooperative services” program by developing new and exciting games and promotional programs.
- Conduct player and customer satisfaction surveys as well as strive to continually improve service in accordance with the Lottery’s quality initiative.
- Contribute to the design and development of improved sales management, reporting, and communications solutions for Lottery support staff and retailers that capitalize on available Internet and wireless technologies.
- Continue to employ effective sales management techniques to stimulate positive selling activities among licensed retailers.

FINANCIAL INFORMATION

The Management Discussion and Analysis section starting on page 23 should also be read for an overview of the financial results.

REVENUE DISTRIBUTION:





The Delaware Lottery is proud of its contribution to the State General Fund which finances state services. The Lottery is the fifth largest contributor to this Fund. The monies, appropriated by the Legislature as a result of the Governor’s recommended budget, fund such necessary state services as:

- Public and higher education
- Health and social services
- Public safety
- Judicial and corrections
- Child, youth and family services.

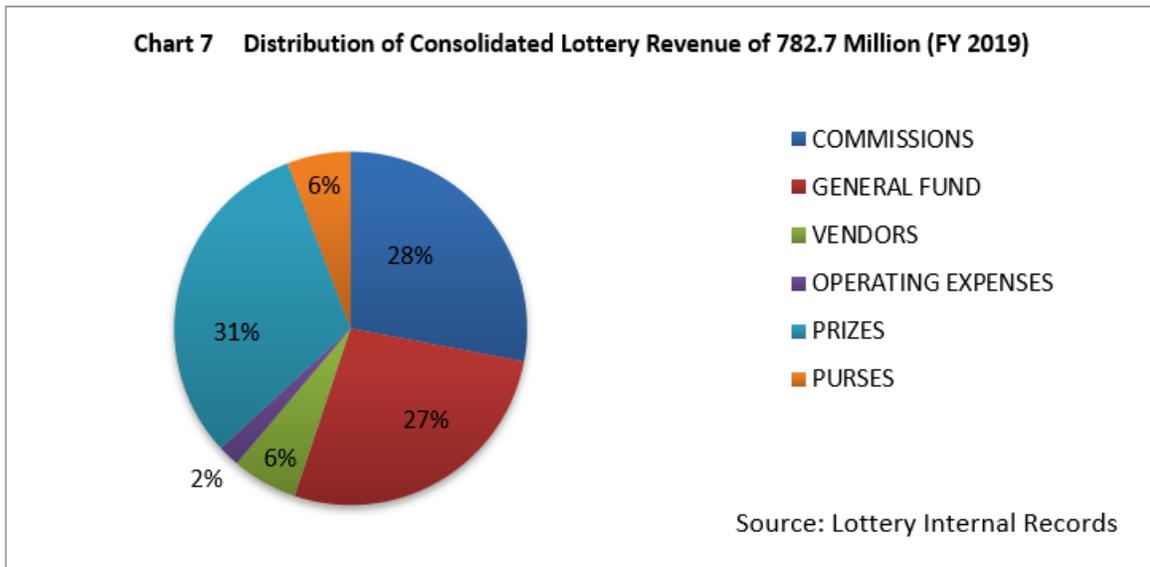
Additional taxes would be needed to provide these vital state services without the Lottery’s contribution.

In addition to the above contribution to the State General Fund, the Lottery’s earnings also contribute directly to:

- The Department of Agriculture for horseracing purse increases and for funding the Standardbred Breeder’s Program and the Certified Thoroughbred Program

- The Department of Health and Social Services for operating the Problem Gamblers’ program

As seen from the chart below, when these distributions are added to the contributions made to the State General Fund, the Lottery contributed 27 cents of every sales dollar to the State of Delaware in fiscal year 2019.



INTERNAL CONTROL ENVIRONMENT:

The Lottery has established and maintains an internal control system designed to ensure that its assets are protected from loss, theft, or misuse. The system also ensures that adequate accounting data is compiled in an accurate and timely fashion to allow for the preparation of financial statements in conformity with Generally Accepted Accounting Practices (GAAP). Because the costs of a control should not exceed the benefits to be derived, the objective is to provide reasonable, but not absolute, assurance that the financial statements are free of any material misstatements. Lottery officials believe that the Lottery’s internal control structure provides reasonable assurance that the above objectives are met.

Lottery management also believes that the organization’s responsibility towards internal control extends far beyond the aforementioned objectives. The success of the Lottery is wholly dependent upon favorable public perception as well as the public’s confidence in the honesty, integrity, and security of its games.

To maintain this public perception of Lottery integrity, the Lottery has enhanced its system of internal controls to include:

- Maintaining highly secure lottery facilities and limiting access to them
- Providing for multiple drawing algorithms
- Hiring an independent CPA firm to test data and witness drawings
- Printing lottery tickets with special inks, dyes and security codes
- Having the central system provider’s system of internal controls tested and certified by an independent CPA firm on an annual basis
- Having video lottery machines and software tested by an independent laboratory
- Performing background checks on retailers, agents, vendors and video lottery employees, and Delaware Lottery employees.

BUDGETARY CONTROLS:

The Lottery submits an operating budget and forecasted revenue contribution for the State General Fund to the Department of Finance on an annual basis. The revenue contribution is tracked and reported monthly and is revised on a quarterly basis if necessary. This information is included in the State's budget under the Department of Finance.

The Lottery also uses an internal budget for expense control and business management. This internal budget mirrors the budget submitted to the State in revenue generated and contribution to the State General Fund. The internal budget consolidates certain detailed expense categories to reduce recording time and for better management.

ENTERPRISE OPERATIONS:

The Delaware State Lottery operates as an enterprise fund. An enterprise fund is used to account for the operations of an entity that is financed and operated in a manner similar to a private enterprise. The intent of the State is that the costs of providing Lottery services and products to the general public on a continuing basis should be financed by or recovered primarily through user charges.

The Lottery's financial statements are included in the State's Comprehensive Annual Financial Report under Proprietary Fund Type – Enterprise Fund.

Although the Lottery provides an annual operating budget to the State, all capital expenditures and operating expenses are funded by the Lottery through internally generated funds.

The Lottery utilizes internal services of other State agencies for items such as postage, telephone, automobiles, graphics and printing, pension administration, etc. These agencies are compensated by the Lottery through inter-fund transfers.

DEBT ADMINISTRATION:

Money owed to the State of Delaware in the event that the Lottery's MUSL games are discontinued is \$2.8 million as of June 30, 2019. This amount has been reserved by MUSL (Multi-State Lottery) that operates the Powerball, Lotto America and Mega Million games. Please see Note 6 of the Notes to Financial Statements under the "Financial Section" of this report.

The Lottery's enabling legislation does not provide the ability to issue bonded debt.

OTHER INFORMATION

INDEPENDENT AUDIT:

Enabling legislation of the Lottery requires that the State of Delaware Auditor's Office conduct an annual audit of all accounts and transactions of the Delaware State Lottery Office. The cost of the audit is paid by money from the Lottery and designated as operating expenses.

The State Auditor's Office has contracted with an independent Certified Public Accounting firm to perform annual audits of the Lottery's financial statements. The independent auditor's opinion and the current annual audit report are included in the "Financial Section" of this report.

AWARDS:

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Delaware State Lottery for its comprehensive annual financial report for the fiscal year ended June 30, 2018. This was the nineteenth consecutive year that the Lottery has achieved this prestigious award. A copy of the certificate for fiscal year 2018 can be seen in this report. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGMENTS:

This Comprehensive Annual Financial Report for fiscal year 2019 signifies the Delaware State Lottery's commitment to comprehensive disclosure of its financial condition.

The preparation of this report was made possible by cooperation from all departments of the Lottery. We wish to express our special appreciation to the Lottery's Finance and Accounting department as well as to other groups and individuals who assisted in the preparation of this report.

Respectfully submitted,

DELAWARE STATE LOTTERY



Vernon A. Kirk
Director
Delaware State Lottery

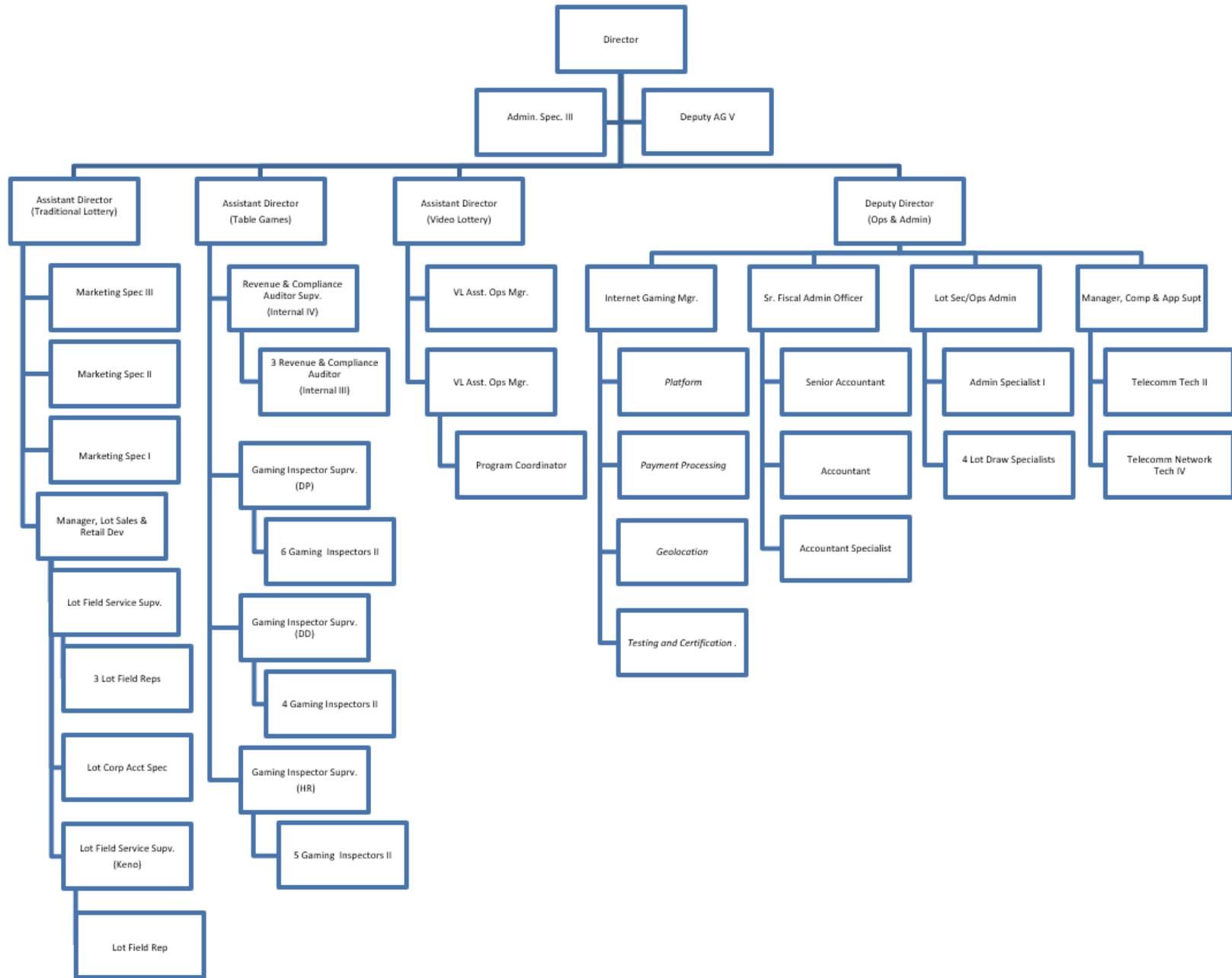


Tina M. Leager
Senior Fiscal Administrative Officer
Delaware State Lottery

**DELAWARE STATE LOTTERY
PRINCIPAL OFFICIALS**

Governor	John Carney
Secretary of Finance	Richard Geisenberger
Lottery Director	Vernon Kirk
Lottery Deputy Director	Helene Keeley
Lottery Deputy Attorney General	Julie Donoghue
Assistant Director of Marketing & Sales	Barbara Hutchins-Miller
Assistant Director of Video Lottery	Jayne Gooden
Assistant Director of Table Games	Richard MacDonald
Senior Fiscal Administrative Officer	Tina Leager

Delaware State Lottery Organization Chart





Government Finance Officers Association

**Certificate of
Achievement for
Excellence in Financial
Reporting**

Presented to

Delaware State Lottery

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2018

Christopher P. Morill

Executive Director/CEO

FINANCIAL SECTION



CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

Vernon Kirk, Director of Delaware State Lottery, and
Richard Geisenberger, Secretary of Finance, State of Delaware
Dover, Delaware

Report on the Financial Statements

We have audited the accompanying financial statements of the Delaware State Lottery (the Lottery), an enterprise fund of the State of Delaware, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained *in Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lottery, an enterprise fund of the State of Delaware as of June 30, 2019, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Vernon Kirk, Director of Delaware State Lottery, and
Richard Geisenberger, Secretary of Finance, State of Delaware

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Lottery and do not purport to, and do not present fairly the financial position of the State of Delaware as of June 30, 2019 and 2018, the changes in financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 24 through 29, and the required supplementary information on pages 51 and 52 as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2019, on our consideration of the Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Lottery's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lottery's internal control over financial reporting and compliance.

Prior Year Financial Statements

The 2018 financial statements of the Delaware State Lottery were audited by other auditors whose report dated November 30, 2018 expressed an unmodified opinion on those statements.



CliftonLarsonAllen LLP

Baltimore, Maryland
November 1, 2019

DELAWARE STATE LOTTERY

Management's Discussion and Analysis

June 30, 2019 and 2018

The management of the Delaware State Lottery (the Lottery) offers this narrative overview and analysis of the Lottery's financial activities for the years ended June 30, 2019 and 2018, which should be read in conjunction with the Lottery's basic financial statements.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the Lottery's basic financial statements. Since the Lottery is an enterprise fund of the State of Delaware, these financial statements are presented in a manner similar to a private-sector business. As required by accounting principles generally accepted in the United States of America (GAAP), current year's revenues are recorded when earned and expenses are recorded as they are incurred, regardless of when the cash is received or disbursed.

The Statement of Net Position presents information on all of the Lottery's assets, liabilities, deferred outflows, and deferred inflows with the residual of all elements reported as the net position. Pursuant to Delaware law, the Lottery's net position should remain relatively unchanged, since all excess monies are to be sent directly to the State's General Fund, allowing the Lottery to maintain a net position of \$1,000,000.

The Statement of Revenue, Expenses, and Changes in Net Position show the result of the Lottery's total operations and reflect both operating and nonoperating activities. Changes in net position (increases or decreases) reflect the current fiscal year's operating impact upon the overall financial position of the Lottery.

The Statement of Cash Flows provides a detailed analysis of all sources and uses of cash. The direct method of cash flows is presented, ending with a reconciliation of operating income to net cash provided by operating activities. The Statement of Cash Flows is divided into three sections – operating, noncapital financing, and investing.

Notes to the basic financial statements contain additional information, and often offer explanations to the basic financial statements. The notes are intended to assist the reader in understanding the Lottery's basic financial statements.

DELAWARE STATE LOTTERY
Management's Discussion and Analysis
June 30, 2019 and 2018

Condensed Net Position

Table 1
(In millions)

Assets	June 30		
	2019	2018	2017
Cash and investments	\$ 4.7	5.9	3.8
Accounts receivable	12.4	10.8	7.9
Due from State of Delaware	12.6	12.7	12.4
Deposit with Multi-State Lottery	2.8	2.5	2.3
Total assets	<u>32.5</u>	<u>31.9</u>	<u>26.4</u>
Deferred outflows	<u>1.0</u>	<u>1.1</u>	<u>1.3</u>
Liabilities and Net Position			
Liabilities:			
Prizes liability	8.5	6.7	5.1
Accounts payable and accrued liabilities	6.9	6.6	4.7
Due to the State of Delaware	0.7	2.4	0.9
Pension and OPEB liability	11.4	12.1	13.6
Multi-State Lottery reserve	2.8	2.5	2.3
Total liabilities	<u>30.3</u>	<u>30.3</u>	<u>26.6</u>
Deferred inflows	<u>2.2</u>	<u>1.7</u>	<u>0.1</u>
Net position:			
Unrestricted	<u>\$ 1.0</u>	<u>1.0</u>	<u>1.0</u>

The Lottery's accounting periods are predicated on a 4-4-5-week cycle except at year-end when the closing date includes additional days up to and including June 30. These extra days amounted to five days in 2017, six days in 2018 and seven days in 2019.

Table 1 above shows that the one extra day of sales in fiscal year 2019 over 2018 and one day from 2018 over 2017 allows for an increase in accounts receivable.

Prizes liability as shown in Table 1 has increased in fiscal year 2019 over fiscal year 2018 by \$1.8 million mainly due to the addition of sports wagering all year on all sports compared to just football in 2018. The liability had increased in fiscal year 2018 over fiscal year 2017 by \$1.6 million.

With the implementation of the Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, the Pension and OPEB liability and the amount due from the State of Delaware increased for fiscal years 2019 and 2018 from fiscal year 2017 to cover such obligations. Since the Lottery is required to send all surplus funds to the State General Fund, any monies required to pay these liabilities would come from the State's General Fund.

DELAWARE STATE LOTTERY
Management's Discussion and Analysis
June 30, 2019 and 2018

Revenue

Table 2
Revenue
(In millions)

	Year ended June 30		
	2019	2018	2017
Play 3	\$ 27.5	27.0	27.5
Play 4	23.7	22.8	22.7
Multi Win Lotto	4.5	4.6	4.3
Powerball	25.2	24.6	22.8
Hot Lotto	-	1.3	2.7
Mega Millions	20.7	12.1	8.9
Lotto America	3.4	2.1	-
Keno	8.6	8.7	8.2
Lucky for Life	2.9	3.0	3.4
Instant games	79.8	70.6	69.3
Traditional games revenue	196.3	176.8	169.8
Video lottery, net	367.4	353.8	352.8
I-Gaming	3.2	2.2	2.7
Video lottery expired jackpots and credit slips	0.4	0.4	0.3
Casino license fees	0.2	3.2	3.2
Sports lottery	158.6	54.7	46.1
Table games, net	56.6	54.6	53.1
Total revenue	\$ 782.7	645.7	628.0

Table 2 above compares revenue for each lottery game category. Fiscal year 2019 saw a record year in instant sales, a record jackpot for Mega Millions and the addition of sports wagering to include all sports all year-round increased sales \$137 million or 21.2% over fiscal year 2018. There is an increase in revenue in fiscal year 2018 of \$17.7 million or 2.8% over fiscal year 2017. The increase is primarily due to the increase of popularity of sports lottery.

Powerball, Mega Millions and Lotto America sales are typically driven by the size of the jackpot. Mega Millions had a record billion-dollar jackpot in fiscal year 2019 providing the increase in sales of \$8.6 million or 71% over fiscal year 2018. Mega Millions had a large jackpot in fiscal year 2018 explaining the increase in sales of \$3.2 million or 36% over fiscal year 2017.

Sports Lottery expanded at the end of fiscal year 2018 to allow betting on all sports along with single game bets. This expansion for the last three weeks of the fiscal year led to a significant jump in sales for sports lottery over fiscal year 2017 with an increase of \$8.6 million or 18.7%. With the expansion of Sports Lottery to include all sports for the entire fiscal year, sales increased dramatically \$103.9 million for fiscal year 2019 over fiscal year 2018.

Video lottery and table games revenue increased 3.8% and 3.6% respectively from fiscal year 2019 over fiscal year 2018 following industry wide trends. Other contributing factors include the increase of capital and marketing expenditures required by new legislative changes for fiscal year 2019. Video lottery only had a slight increase of \$1 million for fiscal year 2018 over fiscal year 2017. Table games revenue increased \$1.5 million or

DELAWARE STATE LOTTERY
Management's Discussion and Analysis
June 30, 2019 and 2018

2.8% in fiscal year 2018 over fiscal year 2017. These increases shared the same trends as all lottery product increases for the current fiscal year.

Cost of Games

Table 3

Cost of Games

(In millions and as a percentage of all revenue)

	Year ended June 30					
	2019		2018		2017	
Commission expense	\$ 220.5	28.2%	\$ 199.9	31.0%	\$ 196.7	31.3%
Gaming vendor fees and costs	47.4	6.1%	43.0	6.7%	39.8	6.3%
Prize expense	244.4	31.2%	136.5	21.1%	135.0	21.5%
Total cost of games	\$ 512.3		\$ 379.4		\$ 371.5	

Table 3 above compares the cost of games for the last three years. Commission expense includes payments to lottery retailers for selling and cashing traditional and sports lottery tickets, and commissions to casinos for the operation of video lottery, internet gaming, sports lottery, and table games. Delaware law allows for the net of sports (sports sales minus sports win) to be used in the calculations for commissions and vendors fees.

Commission expense for fiscal year 2019 increased over fiscal year 2018 by \$20.6 million or 10.3%. Fiscal year 2018 increased slightly from fiscal year 2017 by \$3.2 million or 1.6%. Both increases have grown the same percentage as the sales.

Gaming vendor fees and costs include the cost of the central system used to monitor and collect pertinent data for the traditional draw games and the video lottery system, the instant games supplier fees, the cost of leasing video lottery terminals and franchise video games, and the cost incurred by internet gaming for fees and website maintenance.

Gaming vendor fees for fiscal year 2019 increased over fiscal year 2018 by \$4.4 million or 10.2%. The increase in sales was a contributing factor to the increase in vendor fees. Fiscal year 2018 increased over fiscal year 2017 by \$3.2 million or 8.0%. The increase in vendor fees was due to the fact of the increase in sales and the increase in net revenue of sports lottery.

DELAWARE STATE LOTTERY
Management's Discussion and Analysis
June 30, 2019 and 2018

Prize Expense, Net of Reversions

Table 4
Prize Expense, Net of Reversions
(In millions)

	Year ended June 30		
	2019	2018	2017
Play 3	\$ 13.3	13.1	12.8
Play 4	11.7	11.0	10.3
Multi Win Lotto	2.6	2.8	2.6
Powerball	12.2	12.0	10.7
Hot Lotto	—	0.5	1.3
Mega Millions	10.5	6.1	4.6
Keno	5.0	5.2	4.8
Lucky for Life	1.7	1.8	1.6
Lotto America	1.7	1.1	—
Sports lottery	132.5	36.2	40.2
Instant games	53.1	46.7	46.1
Total prize expense	\$ 244.3	136.5	135.0

Table 4 above compares prize expense for each lottery game category for the past three years. Prize expense includes the costs for winning tickets for traditional and sports lottery. In general, prize expense by game will increase or decrease from year to year in proportion to the increase or decrease in sales for a particular game. However, the prize expenses for the Play 3 and Play 4 games are impacted by the luck of the draw, and actual prize payment is determined by lottery players' luck in matching the particular set of numbers randomly selected in each drawing for each game. Overall prize expense for the instant game product category is controllable for the most part, by printing a predetermined number and value of winning tickets for each instant game. Sports lottery winners vary from year to year due to the unpredictability of the outcome of professional sports. During any given sports event the liability of the game could exceed the sales for that event.

The prize expense for fiscal year 2019 increased \$107.8 million or 78.97% over fiscal year 2018. The increase for mega million and instant prize expense is due to the increase in the sales for those games. Most of the increase for FY19 prize expense over FY18 is in sports. Sports prize expense increased \$96.3 million also because of the increase in sports sales. The prize expense for fiscal year 2018 increased slightly over fiscal year 2017 by \$1.5 million or 1.1%. Sport lottery prize costs were unusually low for the 2018 NFL season and with the expansion into other professional and college sports the liability is predicted to be much more constant over the course of the events. Sports lottery accounted for much of the increase in FY18 as well.

DELAWARE STATE LOTTERY
Management's Discussion and Analysis
June 30, 2019 and 2018

Operating Expenses

Table 5

Operating Expenses

(In millions)

	Year ended June 30		
	2019	2018	2017
Operating expenses	\$ 10.7	10.4	10.7

Operating expenses remained relatively unchanged from fiscal year 2017 through fiscal year 2019 with a slight decrease in fiscal year 2018 from spending less in travel, supplies, and capital purchases.

Nonoperating Expenses

Table 6

Nonoperating Expenses

(In millions)

	Year ended June 30		
	2019	2018	2017
Contributions to the State of Delaware:			
Standardbred Breeder's Program	\$ 3.0	3.0	3.0
Certified Thoroughbred Program	1.0	1.0	1.0
Department of Agriculture Purses	40.2	36.9	35.7
Department of Health & Social Services	1.7	1.6	1.6
State of Delaware - General Fund	213.8	213.3	204.4
Total nonoperating expenses	\$ 259.7	255.8	245.7

Table 6 shows the expenses incurred to other state agencies as dictated by Delaware Law. The increase in contributions to nonoperating expenses in fiscal year 2019 over fiscal year 2018 of \$3.9 million or 1.5% is due to the increase in total revenue and the increase in the percentage of revenue to purses for video due to legislative changes. The portion of nonoperating expenses increased in fiscal year 2018 over fiscal year 2017 by \$10.1 million or 4.1%. This increase was in correlation of the increase in sales for the year and the decrease in sports expense.

DELAWARE STATE LOTTERY
Basic Statements of Net Position
June 30, 2019 and 2018

Assets	2019	2018
Current assets:		
Cash and investments	\$ 4,748,553	\$ 5,903,324
Accounts receivable	12,369,828	10,836,366
Due from the State of Delaware	12,607,234	12,657,006
Total current assets	29,725,615	29,396,696
Noncurrent assets:		
Deposit Multi-State Lottery	2,845,122	2,467,039
Total assets	32,570,737	31,863,735
Deferred outflows	967,386	1,127,219
Liabilities and Net Position		
Current liabilities:		
Prizes liability	8,545,304	6,662,632
Accounts payable and accrued liabilities	6,872,002	6,615,524
Due to the State of Delaware	701,075	2,461,534
Total current liabilities	16,118,381	15,739,690
Noncurrent liabilities:		
Multi-State Lottery reserve	2,845,122	2,467,039
Pension and OPEB liability	11,410,101	12,095,841
Total noncurrent liabilities	14,255,223	14,562,880
Total liabilities	30,373,604	30,302,570
Deferred inflows	2,164,519	1,688,384
Net position:		
Unrestricted	\$ 1,000,000	\$ 1,000,000

See accompanying notes to basic financial statements.

DELAWARE STATE LOTTERY

Basic Statements of Revenue, Expenses, and Changes in Net Position Years ended June 30, 2019 and 2018

	2019	2018
Revenue:		
Video lottery, net	\$ 367,399,349	\$ 353,776,920
Video lottery expired jackpots and credit slips	381,685	379,558
Casino license fees	211,300	3,221,800
I-Gaming	3,166,045	2,178,023
Sports lottery	158,630,194	54,747,779
Table games, net	56,611,092	54,629,995
Draw games	116,507,746	106,188,593
Instant games	79,809,999	70,599,375
Total revenue	782,717,410	645,722,043
Cost of games:		
Video lottery commissions	156,338,344	149,150,781
Prize costs, net of reversions	244,362,133	136,506,526
Gaming vendor fees and costs	47,448,710	43,009,044
Instant and draw games commissions	12,178,982	10,764,400
Sports lottery commissions	6,699,434	3,913,713
Table games commissions	45,288,873	36,110,427
Total cost of games	512,316,476	379,454,891
Gross margin	270,400,934	266,267,152
Operating expenses:		
Advertising and promotions	3,251,410	3,147,412
Payroll and related benefits	5,754,456	5,506,623
Other general and administrative	1,703,148	1,791,987
Total operating expenses	10,709,014	10,446,022
Operating income	259,691,920	255,821,130
Nonoperating expenses:		
Delaware Standardbred Breeder's Program	3,000,000	3,000,000
Delaware Certified Thoroughbred Program	1,000,000	1,000,000
State of Delaware	255,691,920	251,821,130
Total nonoperating expenses	259,691,920	255,821,130
Change in net position	-	-
Net position at beginning of year	1,000,000	1,000,000
Net position at end of year	\$ 1,000,000	\$ 1,000,000

See accompanying notes to basic financial statements.

DELAWARE STATE LOTTERY
Basic Statements of Cash Flows
Years ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Receipts from customers	\$ 781,183,948	\$ 642,806,077
Payments to vendors for goods and services	(52,437,817)	(47,712,684)
Payments to employees for services	(5,750,054)	(5,524,150)
Payments for prizes	(242,479,461)	(134,890,079)
Payments for commissions	(220,219,008)	(198,263,195)
Net cash provided by operating activities	260,297,608	256,415,969
Cash flows from noncapital financing activities:		
Transfers to the Delaware Standardbred Breeder's Program	(3,000,000)	(3,000,000)
Transfers to the Delaware Certified Thoroughbred Program	(1,000,000)	(1,000,000)
Transfers to the State of Delaware	(257,452,379)	(250,304,247)
Net cash used in noncapital financing activities	(261,452,379)	(254,304,247)
Net change cash and investments	(1,154,771)	2,111,722
Cash and investments at beginning of year	5,903,324	3,791,602
Cash and investments at end of year	\$ 4,748,553	\$ 5,903,324
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 259,691,920	\$ 255,821,130
Adjustments to reconcile operating income to net cash provided by operating activities:		
Effect of changes in operating assets and liabilities:		
Accounts receivable, net	(1,533,462)	(2,915,966)
Prizes liability	1,882,672	1,616,447
Accounts payable and accrued liabilities	256,478	1,894,358
Net cash provided by operating activities	\$ 260,297,608	\$ 256,415,969

See accompanying notes to basic financial statements.

DELAWARE STATE LOTTERY
Notes to Basic Financial Statements
June 30, 2019 and 2018

(1) Summary of Significant Accounting Policies

(a) Legislative Enactment

The Delaware State Lottery (the Lottery) was established by Enabling Legislation (the Legislation) passed on May 31, 1974, by the General Assembly of the State of Delaware (the General Assembly) under the authority of the Governor's Office and under the supervision of a Director. In July 1976, the Lottery was transferred to the Office of the Secretary of Finance. The Director has the power and duty to establish rules for conducting games, including the type and number of games, the price of tickets, the number and amounts of winning tickets, the manner of selecting winning tickets, the manner of prize payment, frequency of drawings, locations and methods for the sale of tickets, procedures for licensing of retailers, and all other functions related to the operation of the Lottery.

The Legislation provides that, for the non-video lottery games, at least 45% of total revenue shall be used to pay prizes, operating expenses shall not exceed 20% of total revenue, and the Lottery shall undertake to provide into the General Fund of the State of Delaware a payment of earnings of 30%. Enabling legislation for video lottery was enacted on July 16, 1994 and provides that, for the video lottery games, at least 87%, but not more than 95% (unless approved by the Director), of total proceeds on an average annual basis shall be used to pay prizes.

(b) Reporting Entity

The Delaware State Lottery (reporting entity) is an enterprise fund of the State of Delaware.

(c) Basis of Presentation

In accordance with accounting principles generally accepted in the United States of America, the financial statements are prepared on the accrual basis of accounting, which requires recognition of revenues when earned and expenses when incurred.

(d) Deferred Outflows and Inflows of Resources

In addition to assets, the Statement of Net Position includes a separate section for deferred outflows of resources. The deferred outflows of resources represent a consumption of net position that applies to future periods.

In addition to liabilities, the Statement of Net Position includes a separate section for deferred inflows of resources. This separate section represents a source of net position that will be amortized to future periods.

DELAWARE STATE LOTTERY
Notes to Basic Financial Statements
June 30, 2019 and 2018

(e) Cash and Investments

Cash and investments consist of deposits held in bank accounts and highly liquid overnight investment accounts, as well as deposits held by the State to fund future non-prize costs during the next month.

(f) Accounts Receivable

Accounts receivable consist primarily of unsettled balances due to the Lottery from the racetracks for video lottery and table games, and from retailers, which principally include grocery and convenience stores serving as the primary distribution channel for traditional lottery sales (drawing and instant games) to the general public. Accounts receivable are stated at the carrying amount net of allowance for uncollectible accounts. An allowance for uncollectible accounts receivable is established when specific customer collection issues are identified. Uncollectible accounts are written off when management has determined that the balance will not be collected.

	2019	2018
Receivables:		
Accounts	\$ 12,369,828	\$ 11,669,384
Total receivables	12,369,828	11,669,384
Allowance for doubtful accounts	—	(833,018)
Total receivables, net	\$ 12,369,828	\$ 10,836,366
Amounts not scheduled for collection during the subsequent year	\$ —	—

(g) Investments

Investments consist of annuity contracts purchased from insurance companies to fund future prize payments and are carried at amortized cost as nonparticipating investment contracts. The practice of purchasing and holding annuity contracts to fund future prize obligations is no longer employed by the Lottery, as investment amounts reported represent annuity contracts whose most recent purchase was during 1998. It is the Lottery's policy to hold all investments of this nature that were purchased to fund prize obligations until maturity. All investments the Lottery had on hand have matured.

(h) Capital Assets

All purchases of capital assets, mostly computer equipment and furniture and fixtures, in excess of \$25,000 are capitalized and carried at cost. Depreciation is computed by using the straight-line method over the estimated useful life of 10 years. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in operations in the period of disposal. During the fiscal years ending June 30, 2019, and June 30, 2018, the Lottery had no new purchases of capital assets and had properly disposed of all old capital assets

DELAWARE STATE LOTTERY
Notes to Basic Financial Statements
June 30, 2019 and 2018

(i) Revenue Recognition

Revenue from drawing games and sports lottery is recognized on the day of purchase. Revenue from the sale of instant tickets is recognized when the book has been activated and when one of the following occurs:

- 85% of the related prizes of an activated book is paid
- 90 days from the date of activation
- When the next pack of the same game is activated

Revenue from video lottery and table game sales is recognized, net of prizes paid, at the time the public plays the game. All revenue that the Lottery reports is considered operating revenue.

(j) Prize Obligations

Prize obligations for the traditional draw games and sports lottery are determined and recognized after each drawing or sports game is held. For the number's games, winners are paid a certain amount depending upon the number of, or order of, winning numbers. Of every Multi Win Lotto sales dollar, a fixed payment goes to fund the nine lower prize levels with the balance going into the jackpot. If there are no jackpot winners in the Lotto game, the amount is carried forward until there is a winner. For the Powerball, Lotto America, and Mega Millions, 50% of the revenues are allocated to the prize pool.

Prize obligations related to instant games are recognized by taking the greater of prize cash disbursements or the historical estimates of claimed prizes. Disbursements for prizes, including installment prize awards, are charged against the obligations for unpaid prize awards. Prizes unclaimed after one year revert back to the Lottery and reduce the prize costs for the year. Such unclaimed monies are then remitted to the State.

(k) Compensated Absences

The Lottery has accrued a liability included in accounts payable and accrued liabilities for employee future absences, recognizing the obligation relating to services already rendered. This liability represents benefits accrued to Lottery employees for vacation earned as of year-end and sick leave estimated to be paid out at retirement for services rendered as of June 30, 2019. Employees earn from 9.5 to 13.25 hours of vacation leave per month depending on years of service. The employee or his or her estate is paid for unused vacation upon termination of employment. Employees earn 9.5 hours of sick leave per month. The Lottery's obligation for sick leave credit is a maximum of 337.5 hours. As of June 30, 2019, and 2018, the Lottery had liabilities of \$234,915 and \$229,406 for accrued vacation and \$231,990 and \$221,760 for accrued sick leave, respectively.

DELAWARE STATE LOTTERY
Notes to Basic Financial Statements
June 30, 2019 and 2018

(l) *Operating and Nonoperating Expenses*

Operating expenses generally result from providing services and producing and delivering goods in connection with the Lottery's principal ongoing operations. Operating expenses of the Lottery include personnel costs, travel costs, contracted services, and supplies. All expenses not meeting this definition are reported as nonoperating expenses.

(m) *Net Pension Liability*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Delaware Public Employees Retirement System (DPERS) and additions to/deductions from DPERS' fiduciary net position have been determined on the same basis as they are reported by DPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(n) *Net OPEB Liability*

For purposes of measuring the net Other Postemployment Benefits (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expenses, information about the fiduciary net position of OPEB Trust and additions to/deductions from OPEB Trust's fiduciary net position have been determined on the same basis as they are reported by the OPEB Trust. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported a fair value.

(2) *Cash and Investments*

Cash and investments reported reflect three types of account balances: the Lottery deposit account, the Lottery prize accounts, and pooled cash and investments held by the State Treasurer's Office. Cash receipts and all cash transfers to other state agencies are made in and out of the Lottery deposit account. Prize disbursements are made out of the Lottery prize accounts. Pooled cash and investments are comprised of cash and cash equivalents and short and long-term investments that are managed by the State Treasurer's Office.

DELAWARE STATE LOTTERY
Notes to Basic Financial Statements
June 30, 2019 and 2018

Cash and investment balances consisted of the following:

	June 30	
	2019	2018
On hand and in bank	\$ 2,771,742	\$ 3,461,584
Pooled cash and investments	1,976,811	2,441,740
Total cash and investment balances	\$ 4,748,553	\$ 5,903,324

Custodial Credit Risk

For deposits, custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the deposits or collateral securities may not be recovered from an outside party.

All deposits are required by state law to be collateralized by direct obligations of, or obligations guaranteed by, the U.S. government or other suitable obligations as determined by the State's Cash Management Policy Board (the Board), unless the Board shall find such collateralization not in the best interest of the State. Additionally, the Board has determined that deposits need not be collateralized provided they are held in a bank that for the previous two years has had a return on total average assets of 0.5% or greater and has had an average capital ratio (total equity to total assets) of at least 5.0%. If the bank does not meet the aforementioned criteria, collateral must consist of one or more of the following:

- U.S. government securities;
- U.S. government agency securities;
- Federal Home Loan Board letters of credit;
- State securities; or
- Securities of a political subdivision of the State with a Moody's Investors service rating of "A" or better.

In addition, the bank must ensure that those securities pledged as collateral have a market value equal to or greater than 102% of the ledger balance(s) in the account(s) each day and ensure that securities pledged are identified as held in the State's name and are segregated on the bank's records.

The bank balance of deposits was not subject to custodial credit risk as all amounts were either fully insured and/or collateralized. As of June 30, 2019, and June 30, 2018, the total bank balance of cash in all bank accounts was \$2,881,693 and \$3,598,928 respectively.

Pooled cash and investments maintained by the State Treasurer is not deemed to have custodial credit risk with regard to the Lottery.

DELAWARE STATE LOTTERY
Notes to Basic Financial Statements
June 30, 2019 and 2018

(3) Investments

All previous investments reported on the statement of net position have reached maturity.

(a) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt instruments will adversely affect the value of an investment. Investments reported on the balance sheet are not subject to interest rate risk.

(b) Credit Risk and Concentration of Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. While the Lottery no longer utilizes the purchase of annuity contracts to fulfill prize obligations, the Lottery places no limit on the amount it may invest in any one issuer.

(4) Capital Assets

During the years ending June 30, 2019, and June 30, 2018, the Lottery did not have any new purchases of capital assets. Currently, there are no capital assets or corresponding depreciation expense.

(5) Prize Obligations

The following is a reconciliation of changes in the prize liability account, which includes the present value of prize installment obligations, for the fiscal years ended June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Prize obligations, beginning of year	\$ 6,662,632	\$ 5,065,864
Prize payments	(242,479,461)	(134,909,758)
Prize costs, net of reversions	244,362,133	136,506,526
Prize obligations, end of year	<u>\$ 8,545,304</u>	<u>\$ 6,662,632</u>

(6) Participation in the Multi-State Lottery

The Lottery is a member of the Multi-State Lottery (the MUSL), which operates traditional draw games on behalf of participating state lotteries. Each MUSL member sells game tickets through its agents and makes weekly wire transfers to the MUSL in an amount equivalent to the member's share of the estimated grand prize liability. Each MUSL member pays lesser prizes directly to the winners. The MUSL has operated the Powerball game since fiscal year 2008, Mega Millions game since 2010, and Lotto America since 2018. Participating lotteries are required to maintain deposits with MUSL for contingency reserves to protect MUSL from unforeseen prize liabilities. The money in this reserve fund is refundable to MUSL members if the MUSL disbands or if a member leaves the MUSL Board. The MUSL has an agreement that grants MUSL the nonexclusive right to offer the

DELAWARE STATE LOTTERY
Notes to Basic Financial Statements
June 30, 2019 and 2018

multi-jurisdictional lottery game known as the “Mega Millions Game,” to be conducted by the MUSL member lotteries.

The amount the Lottery had on deposit with the MUSL, as of June 30, 2019 and 2018, equaled \$2,845,122 and \$2,467,039 respectively. These amounts are also reported as a liability on the Lottery’s balance sheet because they represent the amount to be paid to the State’s General Fund upon separation from the MUSL, if the MUSL is not required to use any portion of the Lottery’s reserves held by the MUSL.

(7) Delaware Standard Breeder’s Program and Delaware Certified Thoroughbred Program

In March 1998, an amendment to the Legislation was passed by the General Assembly that established the Delaware Standardbred Breeder’s Program for the purpose of promoting the Delaware harness racing industry. This legislation, amended in 2004, and 2008 requires the Lottery to withhold \$3,000,000 of funds annually (\$750,000 from the State General Fund, \$1,500,000 from Purses, and \$750,000 from Video commissions) and remit to the Delaware Standardbred Breeder’s Program.

In the epilogue language of the fiscal year 2006 Bond Bill, an amendment was passed by the General Assembly that established the Delaware Certified Thoroughbred Program for the purpose of enhancing the quantity of thoroughbred foals and/or yearlings stabled within Delaware. This legislation, amended in 2008, requires the Lottery to withhold \$1,000,000 of funds annually (\$250,000 from the State General Fund, \$500,000 from Purses, and \$250,000 from Video Commissions) and remit these funds to the Delaware Certified Thoroughbred Program.

(8) Contributions to the State of Delaware

As required, under the Legislation, net position of the Lottery may not exceed \$1,000,000; therefore, the Lottery periodically transfers surplus funds to the State in accordance with the Legislation. For the years ended June 30, 2019 and 2018, the Lottery made the following contributions to the State.

	June 30	
	2019	2018
Amounts transferred and to be transferred to the State for the fiscal year:		
General Fund	\$ 213,826,875	\$ 213,325,651
Department of Health and Social Services	1,728,607	1,584,083
Department of Agriculture	40,136,438	36,911,396
	\$ 255,691,920	\$ 251,821,130

DELAWARE STATE LOTTERY
Notes to Basic Financial Statements
June 30, 2019 and 2018

(9) Revenue and Expenses by Game

The following revenue was recognized:

	Year ended June 30	
	2019	2018
Draw games:		
Play 3 Day	\$ 10,739,010	\$ 10,491,733
Play 3 Night	16,721,484	16,530,817
Play 4 Day	8,985,908	8,564,019
Play 4 Night	14,737,567	14,217,965
Multi Win Lotto	4,514,384	4,559,172
Powerball	25,229,105	24,577,701
Hot Lotto	-	1,300,792
Lotto America	3,367,629	2,129,759
Mega Millions	20,707,521	12,072,786
Keno	8,594,476	8,721,480
Lucky for Life	2,910,662	3,022,369
Total draw games	<u>116,507,746</u>	<u>106,188,593</u>
Instant games	<u>79,809,999</u>	<u>70,599,375</u>
Total traditional lottery	196,317,745	176,787,968
Video lottery, net	367,399,349	353,776,920
I-Gaming video lottery, net	3,166,045	2,178,023
Video lottery expired jackpots and credit slips	381,685	379,558
Casino license fees	211,300	3,221,800
Sports lottery	158,630,194	54,747,779
Table games, net	<u>56,611,092</u>	<u>54,629,995</u>
Total revenue	<u>\$ 782,717,410</u>	<u>\$ 645,722,043</u>

DELAWARE STATE LOTTERY
Notes to Basic Financial Statements
June 30, 2019 and 2018

The revenue, prize costs, and commission expense, by game type, are listed below:

	Video lottery net	Igaming video, net	Sports lottery	Table games, net	Draw games	Instant	Total
Year ended June 30, 2019:							
Revenue	\$ 367,399,348	3,166,045	158,630,194	56,611,092	116,507,746	79,808,944	782,123,370
Other income	381,685			211,300		1,055	594,040
Prize costs, net of reversions			132,473,496		58,773,996	53,114,641	244,362,133
	367,781,033	3,166,045	26,156,699	56,822,392	57,733,750	26,695,358	538,355,277
Commissions expense	156,338,344	—	6,699,434	45,288,873	7,296,461	4,882,522	220,505,634
Contribution margin per game	\$ 211,442,689	3,166,045	19,457,265	11,533,519	50,437,289	21,812,836	317,849,643
Game vendor fees	29,205,706	2,101,162	4,639,631	—	6,578,755	4,923,456	47,448,710
Gross margin	182,236,983	1,064,883	14,817,634	11,533,519	43,858,534	16,889,380	270,400,933
Year ended June 30, 2018:							
Revenue	\$ 353,776,920	2,178,023	54,747,779	54,629,995	106,188,593	70,599,375	642,120,685
Other income	3,601,358	—	—	—	—	—	3,601,358
Prize costs, net of reversions	—	—	36,199,716	—	53,621,285	46,685,525	136,506,526
	357,378,278	2,178,023	18,548,063	54,629,995	52,567,308	23,913,850	509,215,517
Commissions expense	149,150,781	—	3,913,713	36,110,427	6,546,770	4,217,630	199,939,321
Contribution margin per game	\$ 208,227,497	2,178,023	14,634,350	18,519,568	46,020,538	19,696,220	309,276,196
Game vendor fees	27,253,703	1,782,125	3,842,631	—	6,155,206	3,975,379	43,009,044
Gross margin	180,973,794	395,898	10,791,719	18,519,568	39,865,332	15,720,841	266,267,152

(10) Payroll-Related and Other Benefits

All Lottery personnel are employees of the State of Delaware and are covered by pension, health insurance, and other employee benefit programs administered by agencies of the State. During fiscal year 2019 and fiscal year 2018, the Lottery incurred \$5,754,456 and \$5,506,623 respectively, of payroll and benefit costs, including pension, health insurance, and other employee benefit costs, paid to various state agencies responsible for the administration of benefit programs.

(11) Pension and Other Postemployment Benefits

(a) Pension

The Lottery contributes to the State Employees' Pension Plan (the Plan) established by the State to provide benefits for state employees. The Plan is a cost-sharing multiple employer

DELAWARE STATE LOTTERY
Notes to Basic Financial Statements
June 30, 2019 and 2018

defined benefit pension plan established in the Delaware Code. The State of Delaware is responsible for setting benefits and amending plan provisions. The Plan prepares separate financial statements and is administered by the Delaware Public Employees' Retirement System (DPERS). All details of the Plan can be obtained by writing to the State Board of Pension Trustees and Office of Pensions, McArdle Building, Suite #1, 860 Silver Lake Boulevard, Dover, Delaware 19904-2402.

Benefits Provided

The Plan provides retirement, disability and death benefits. Pre-2012 members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least five years of credit service; (b) age 60 with 15 years of credit service; or (c) 30 or more years of service regardless of age. Post-2011 members are eligible for monthly retirement benefits upon reaching (a) age 65 with at least ten years of credited service; (b) age 60 with 20 years of credit service; or (c) 30 or more years of service regardless of age.

Pre-2012 participants are eligible for disability benefits after five years of credited service. In lieu of disability pension benefits, over 90% of the members in this plan opted into a Disability Insurance Program offered by the State effective January 1, 2006. Post-2011 participants are not offered disability pension benefits and are in the Disability Insurance Program.

Death benefits are payable upon the death of an active member who has reached age 62 with at least five years of credit service. Such benefits are paid at 75% of the benefit the employee would have received at age 62. If an employee is currently receiving a pension, the eligible survivor receives 50% of the pension benefit (or 75% with 3% reduction of benefit). Burial benefits of \$7,000 per member are also provided.

Employee Contributions

Pre-2012 members contribute at 3% of earnings in excess of \$6,000.
Post-2011 members contribute at 5% of earnings in excess of \$6,000.

Employer Contributions

Employer contributions are determined by the Board of Pension Trustees. For the year ended June 30, 2019 and 2018, the rate of the employer contribution was 11.8% and 10.4% percent of covered payroll respectively. The Lottery's employer contributions for the years ended June 30, 2019 and 2018 was \$304,759 and \$253,999 respectively.

Net Pension Liability and Expense

At June 30, 2019 and 2018, the Lottery reported a net pension liability of \$1,585,580 and \$1,860,152, respectively, for its proportionate share of the net pension liability of the State of Delaware. The net pension liability at June 30, 2019, was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by

DELAWARE STATE LOTTERY
Notes to Basic Financial Statements
June 30, 2019 and 2018

rolling forward the Plan's total pension liability as of June 30, 2017 to June 30, 2018. As of the measurement date, June 30, 2018, the lottery's proportion was 0.1228 percent, a decrease of 0.0041 percent from June 30, 2017. As of the measurement date, June 30, 2017, the Lottery's proportion was 0.1269 percent, which was a decrease of 0.0058 percent from its proportion measured as of June 30, 2016. For the years ended June 30, 2019 and 2018, the Lottery recognized a pension expense of \$306,987 and \$359,712.

Deferred Outflows and Inflows of Resources

At June 30, 2019 and 2018, the Lottery reported deferred outflows of resources of \$304,759 and \$253,999, respectively, for its contributions after the measurement date, which will be recognized as a reduction of the net pension liability in the following year.

At June 30, 2019 and 2018, the Lottery reported deferred outflows of resources related to pensions from the following sources:

	<u>2019</u>	<u>2018</u>
Net difference between projected and actual investment earnings	\$ -	\$ 217,458
Difference between actual and expected experience	82,865	21,474
Changes in assumptions	276,068	365,495
Contributions subsequent to the date of measurement	304,759	253,999
	<u>\$ 663,692</u>	<u>\$ 858,426</u>

At June 30, 2019 and 2018, the Lottery reported deferred inflows of resources related to pensions from the following sources:

	<u>2019</u>	<u>2018</u>
Net difference between projected and actual investment earnings	\$ 67,212	\$ -
Difference between actual and expected experience	22,884	32,796
Changes in proportions	103,445	91,693
	<u>\$ 193,541</u>	<u>\$ 124,489</u>

DELAWARE STATE LOTTERY
Notes to Basic Financial Statements
June 30, 2019 and 2018

Amounts reported as deferred inflows of resources at June 30, 2019, related to pensions will be recognized as part of pension expense in future periods as follows:

Year Ending June 30	
2020	\$ (183,912)
2021	(101,089)
2022	84,226
2023	26,458
2024	8,925
	<u>\$ (165,392)</u>

Actuarial Assumptions

The collective total pension liability for the June 30, 2018 measurement date was determined by an actuarial valuation as of June 30, 2017, with update procedures used to roll forward the total pension liability to June 30, 2018. This actuarial valuation used the following actuarial assumptions:

Investment Return includes inflation at 2.5%

Salary Increases – 2.5% + Merit, includes inflation at 2.5%

The total pension liabilities are measured based on assumptions pertaining to the interest rates inflation rates, and employee demographic behavior in future years. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates the larger the impact on future financial statements.

Mortality assumptions are based on the Sex distinct RP-2014 tables with gender adjustments for healthy annuitants and disabled retirees and an adjusted version on MP-2015 mortality improvement scale on a fully generational basis.

Projected benefit payments do not include the effects of projected ad hoc cost-of-living adjustments (ad hoc COLAs) as they are not substantively automatic. The primary considerations relevant to making this determination include the historical pattern of granting the changes and the consistency in the amounts of the changes.

The long-term expected rate of return on plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by an asset allocation percentage, which is based on the nature and mix of current and expected plan investments, and by adding

DELAWARE STATE LOTTERY
Notes to Basic Financial Statements
June 30, 2019 and 2018

expected inflation. Best estimates of geometric real rates of return for each major asset class included in the System's current and expected asset allocation are summarized in the following table:

<u>Asset class</u>	<u>Long-term expected real rate of return</u>	<u>Asset allocation</u>
Domestic equity	5.7%	30.7%
International equity	5.7%	13.9%
Fixed income	2.0%	23.3%
Alternative investments	7.8%	24.4%
Cash and equivalents	-	7.7%

Discount Rate

The discount rate used to measure the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at rates determined by the Board of Pension Trustees, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Lottery's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability calculated using the discount rate of 7.0%, as well as what the collective net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	1% decrease <u>6.0%</u>	Current discount rate <u>7.0%</u>	1% increase <u>8.0%</u>
2019 Lottery's proportionate share of the net pension liability	<u>\$ 3,076,897</u>	<u>\$1,585,580</u>	<u>\$ 333,305</u>

	1% decrease <u>6.0%</u>	Current discount rate <u>7.0%</u>	1% increase <u>8.0%</u>
2018 Lottery's proportionate share of the net pension liability	<u>\$ 3,349,116</u>	<u>\$1,860,152</u>	<u>\$ 598,279</u>

DELAWARE STATE LOTTERY
Notes to Basic Financial Statements
June 30, 2019 and 2018

Pension Plan Fiduciary Net Position

Detailed information about the Delaware Public Employees' Retirement System (DPERS) fiduciary net position is available in the DPERS Comprehensive Annual Financial Report which can be obtained from the pension office at McArdle Building, Suite 1; 860 Silver Lake Blvd; Dover, DE, 19904.

Net Position – Pension

By implementing the requirements of GASB Statement No. 68 and GASB Statement No. 71 in fiscal year 2015, the Lottery recognized deferred outflows, net pension liability, and deferred inflows, which affects the Lottery's net position. Legislation dictates that the Lottery can only maintain a net position of \$1,000,000; therefore, any such changes are reflected as an amount due from the State.

(12) Other Postemployment Benefits (OPEB)

The Lottery contributes to the State Employees' Other Postemployment Benefits Fund Trust (OPEB Trust) established by the State to provide benefits for state employees. The OPEB Trust is a cost-sharing multiple employer defined benefit plan established in the Delaware Code. Policy for and management of the OPEB Trust benefits provided to retirees are the responsibility of the State. Beginning in FY 2018, the OPEB Trust prepares separate financial statements and is administered by the Delaware Public Employees' Retirement System (DPERS). All details of the OPEB Trust can be obtained by writing to the State Board of Pension Trustees and Office of Pensions, McArdle Building, Suite #1, 860 Silver Lake Boulevard, Dover, Delaware 19904-2402.

Benefits Provided

The OPEB Trust provides medical coverage to eligible pensioners and their eligible dependents through the same healthcare plans that are available to active employees. The participant's cost and vesting provisions of OPEB benefits is variable based on years of service. Pensioners who retire after July 1, 2012 and who become eligible for Medicare will pay an additional five percent of the Medicare Supplement offered by the State. Surviving spouses are eligible for coverage after a retiree's death.

Contributions

Participating employers fund the OPEB Trust for current retirees on a pay-as-you-go basis along with funding for future benefits at a rate that is approved in the annual budget, but not actuarially determined. By State Statute Chapter 52, Title 29 of the Delaware Code, contribution requirements of plan members and the government are established and may not be amended by the State Legislature.

DELAWARE STATE LOTTERY
Notes to Basic Financial Statements
June 30, 2019 and 2018

For the year ended June 30, 2019, the rate of the employer contribution 12.1 percent of covered payroll. The Lottery's employer contributions for the years ended June 30, 2019 and 2018 was \$303,694 and \$268,793, respectively. The Lottery's required contributions equaled actual contributions made for the years ended June 30, 2019 and 2018.

Net OPEB Liability and Expense

At June 30, 2019 and 2018, the Lottery reported a net Other Postemployment Benefits (OPEB) liability of \$9,824,521 and \$10,235,689, respectively, for its proportionate share of the net OPEB liability of the State of Delaware. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the Plan's total OPEB liability as of June 30, 2017 to June 30, 2018. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the Plan's total OPEB liability as of June 30, 2016 to June 30, 2017. As of the measurement date, June 30, 2018, the Lottery's proportion is based on the percentage of actual employer contributions during the period ending June 30, 2018. The Lottery's 2018 and 2017 proportion was 0.1197 percent and 0.1240 percent, respectively. The 2018 portion showed a decrease of 0.0004 percent from its proportion measured as of June 20, 2017. The 2017 portion showed a decrease of 0.0046 percent from its proportion measured as of June 30, 2016. For the year ended June 30, 2019 and 2018, the Lottery recognized an OPEB expense of \$264,708 and \$412,436, respectively.

Deferred Outflows and Inflows of Resources

At June 30, 2019 and 2018, the Lottery reported deferred outflows of resources related to OPEB from the following sources:

	<u>2019</u>	<u>2018</u>
Contributions subsequent to the date of measurement	<u>\$ 303,694</u>	<u>\$ 268,793</u>

At June 30, 2019 and 2018, the Lottery reported deferred inflows of resources related to OPEB from the following sources:

	<u>2019</u>	<u>2018</u>
Net difference between projected and actual investment earnings	\$ 24,685	\$ 20,267
Changes in assumptions	1,334,798	1,194,939
Changes in proportions	<u>611,495</u>	<u>348,689</u>
	<u>\$ 1,970,978</u>	<u>\$ 1,563,895</u>

DELAWARE STATE LOTTERY
Notes to Basic Financial Statements
June 30, 2019 and 2018

The cumulative amounts of collective net deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year Ending June 30	
2020	\$ (458,442)
2021	(458,442)
2022	(458,442)
2023	(453,375)
2024	(142,277)
	<u>\$ (1,970,978)</u>

Actuarial Assumptions

The total OPEB liability for the June 30, 2018 measurement date was determined by an actuarial valuation as of June 30, 2017, with update procedures used to roll forward the total OPEB liability to June 30, 2018. These actuarial valuations used the following actuarial assumptions.

Actuarial assumptions:	June 30, 2018	June 30, 2017
Discount Rate	3.87%	3.58%
Projected Salary increases	3.25% + Merit	3.25% + Merit
Healthcare cost trends rates	6.80%	7.00%

Mortality rates were based on the sex-distinct employee, healthy annuitant, and disabled annuitant mortality tables derived from the RP-2014 Total Dataset Employee Mortality Table, including adjustment factors. Future mortality improvements are reflected by applying a custom projection scale on a generational basis to adjusted base tables from the base year.

The total OPEB liabilities are measured based on assumptions pertaining to the interest rates, inflation rates, health costs, and employee demographics behavior in future years. The assumptions used were based on the results of an actuarial experience study conducted in 2016. It is likely that future experiences will not exactly conform to these assumptions. To that extent liabilities may be higher or lower than anticipated. The more the experience deviates the larger the impact on future financial statements.

The long-term expected rate of return on the Trust's investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by

DELAWARE STATE LOTTERY
Notes to Basic Financial Statements
June 30, 2019 and 2018

weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class as of June 30, 2018 are summarized in the following table:

<u>Asset class</u>	Asset Allocation Range		Long-term expected real rate of return	Asset allocation
	Min	Max		
Equity	20%	80%		
Domestic equity			5.7%	38.7%
International equity			5.7%	19.0%
Fixed income	20%	80%		
Domestic Fixed Income			2.0%	39.3%
Cash and Cash Equivalents			0.0%	

Discount Rate

The discount rate used to measure the total OPEB liability was 3.58% at the beginning of the current measurement period and 3.87% at the end of the current measurement period, based on the Bond Buyer GO 20-Bond Municipal Bond Index. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and the employer contributions to the OPEB will continue to follow the pay-as-you-go contribution policy. Based on the assumptions of a pay-as-you-go plan, the discount rates used for June 30, 2018 measurement dates are equal to the applicable rate of the 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate:

	1 % Decrease <u>2.87%</u>	Discount Rate <u>3.87%</u>	1% Increase <u>4.87%</u>
2019 Lottery's proportionate share of Collective Net OPEB liability	<u>\$11,690,918</u>	<u>\$9,824,521</u>	<u>\$8,356,972</u>

	1 % Decrease <u>2.58%</u>	Discount Rate <u>3.58%</u>	1% Increase <u>4.58%</u>
2018 Lottery's proportionate share of Collective Net OPEB liability	<u>\$12,272,674</u>	<u>\$10,235,689</u>	<u>\$8,647,782</u>

DELAWARE STATE LOTTERY
Notes to Basic Financial Statements
June 30, 2019 and 2018

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates:

	1 % Decrease <u>5.8%</u>	Health Care Trend <u>6.8%</u>	1% Increase <u>7.8%</u>
2019 Lottery's proportionate share of Collective Net OPEB liability	<u>\$8,364,989</u>	<u>\$9,824,521</u>	<u>\$11,601,859</u>

	1 % Decrease <u>6.0%</u>	Health Care Trend <u>7.0%</u>	1% Increase <u>8.0%</u>
2018 Lottery's proportionate share of Collective Net OPEB liability	<u>\$8,666,222</u>	<u>\$10,235,689</u>	<u>\$12,157,385</u>

Pension Plan Fiduciary Net Position

Detailed information about the Delaware Public Employees' Retirement System (DPERS) fiduciary net position is available in the DPERS Comprehensive Annual Financial Report which can be obtained from the pension office at McArdle Building, Suite 1; 860 Silver Lake Blvd; Dover, DE, 19904.

(13) Risk Management

The Lottery stipulates in its vendor contracts that the vendors carry various insurance coverage such as property (video gaming machines and online terminals, etc.), general liability, errors and omissions, automotive, and crimes. The Lottery's risks of losses related to workers' compensation, employee healthcare, automobile, and a portion of property and casualty claims are insured internally by the State.

(14) Commitments

The Lottery has entered into various contracts for services to be rendered relating principally to the operation of the Lottery's games. Under the gaming systems contract the Lottery is committed to 5.371% of draw game sales, 4.18% of PHD sales, 9.95% of Keno sales, 5.6% of instant sales, 12.5% of track sports net revenue and 25% of retailer sports net revenue, 1% of video net gaming revenue, and 25% of net win for charitable gaming video machines to its central system provider through October 2022. For video lottery terminals, the lottery is committed to a range of 6.5% to 7.0% to video lottery vendors through October 28, 2020. For video lottery terminals classified as electronic table games (ETG), the Lottery is committed to a range of 7% to 20% through March 15, 2021.

Delaware State Lottery
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability and Contributions

Proportionate Share of Net Pension Liability

Measurement date	<u>6/30/2018</u>	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>6/30/2014</u>
Lottery's proportion of the net pension liability	0.1228%	0.1269%	0.1327%	0.1370%	0.1407%
Lottery's proportion of the net pension liability - dollar value	\$ 1,585,580	\$ 1,860,152	\$ 1,999,680	\$ 911,588	\$ 518,009
Lottery's covered payroll	\$ 2,438,127	\$ 2,472,103	\$ 2,530,813	\$ 2,555,038	\$ 2,589,613
Lottery's proportionate share of the net pension liability as a percentage of its covered payroll	65.0%	75.2%	79.0%	35.7%	20.0%
Plan fiduciary net position as a percentage of the total pension liability	87.5%	85.4%	84.1%	92.7%	95.8%
<u>Contributions</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$ 304,759	\$ 253,999	\$ 236,800	\$ 242,448	\$ 244,307
Contributions in relation to the contractually required contributions	304,759	253,999	236,800	242,448	244,307
Contribution excess (deficit)	<u>\$ -</u>				
Lottery's covered payroll	\$ 2,577,989	\$ 2,438,127	\$ 2,472,103	\$ 2,530,813	\$ 2,555,038
Contribution as a percentage of covered payroll	11.83%	10.42%	9.58%	9.58%	9.56%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available.

This schedule will accumulate each year until sufficient information to present a ten year trend is available.

Delaware State Lottery
Required Supplementary Information
Schedule of Proportionate Share of the Net OPEB Liability and Schedule of Contributions

Proportionate Share of Net OPEB Liability

	<u>6/30/2018</u>	<u>6/30/2017</u>	<u>6/30/2016</u>
Measurement date			
Lottery's proportion of the net OPEB liability	0.1197%	0.1240%	0.1286%
Lottery's proportion of the net OPEB liability - dollar value	\$ 9,824,521	\$ 10,235,689	\$ 11,681,265
Lottery's covered payroll	\$ 2,455,646	\$ 2,472,103	\$ 2,530,772
Lottery's proportionate share of the net OPEB liability as a percentage of its covered payroll	400.1%	414.0%	461.6%
Plan fiduciary net position as a percentage of the total OPEB liability	4.4%	4.1%	3.3%

Contributions

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually required contributions	\$ 303,694	\$ 268,793	\$ 294,117
Contributions in relation to the contractually required contributions	\$ 303,694	\$ 268,793	\$ 294,117
Contribution excess (deficit)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Lottery's covered payroll	\$ 2,577,989	\$ 2,455,646	\$ 2,472,103
Contribution as a percentage of covered payroll	11.78%	10.95%	11.90%

In accordance with GASB Statement No. 75, this schedule has been prepared prospectively as the above information for the preceding years is not readily available.

This schedule will accumulate each year until sufficient information to present a ten year trend is available.

STATISTICAL SECTION

STATISTICAL SECTION

TABLE OF CONTENTS

Employee & Retailer Demographics

Please see Exhibits I & II that show numbers of Lottery Employees and Retailers.

Delaware Demographics and Economic Information

Please see Exhibits III that shows the State of Delaware statistics for the last 10 calendar years.

Financial Trend Data

Please see Exhibits IV for Delaware Lottery financial trends for the last 10 fiscal years.

Revenue Capacity Data and Operation Information

Please see Exhibits V to XIV that show the contributions and revenue generated by the various components of the Lottery.

Delaware State Lottery Historical Data

Please see Exhibit XV for Delaware State Lottery historical data since inception.

U.S. Lottery Statistics

Please see Exhibits XVI to XVIII that shows statistics on the U.S. Lotteries

Debt Capacity Data

The Delaware State Lottery has no Legislative debt limit.

Exhibit I

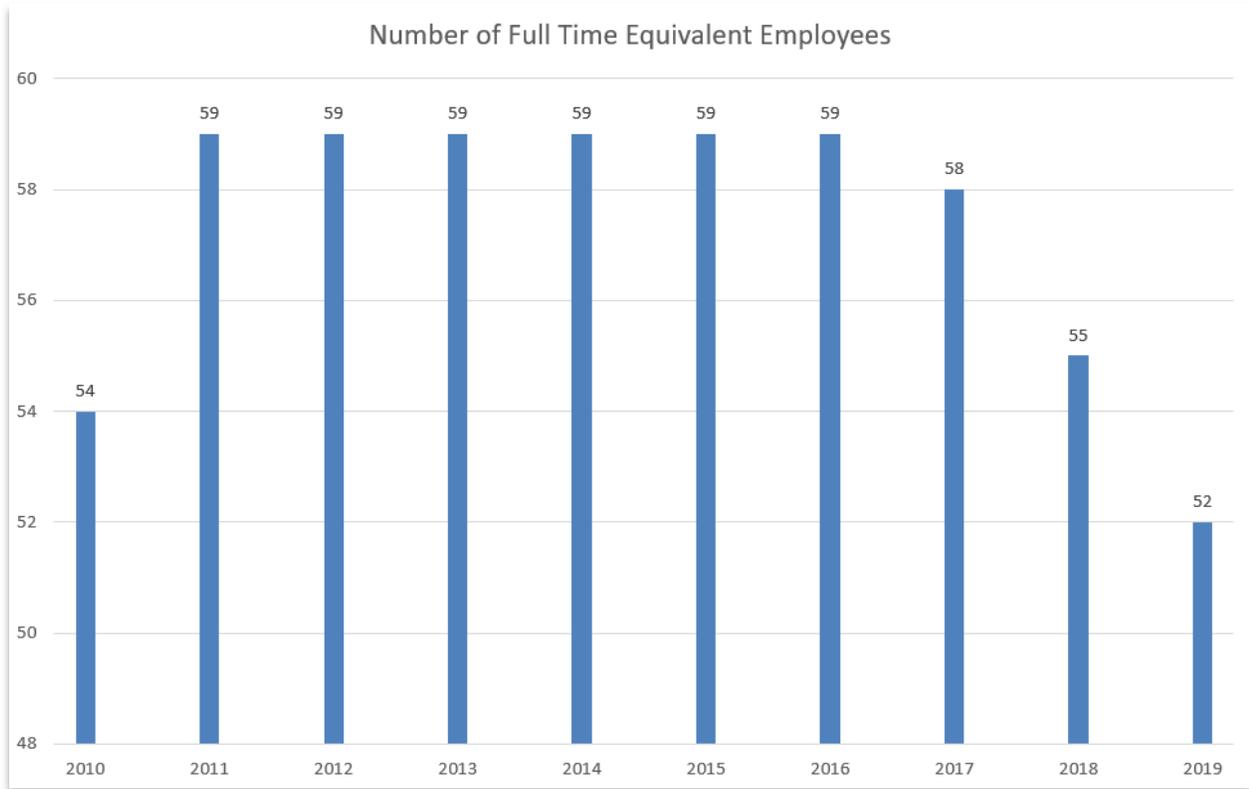


Exhibit II

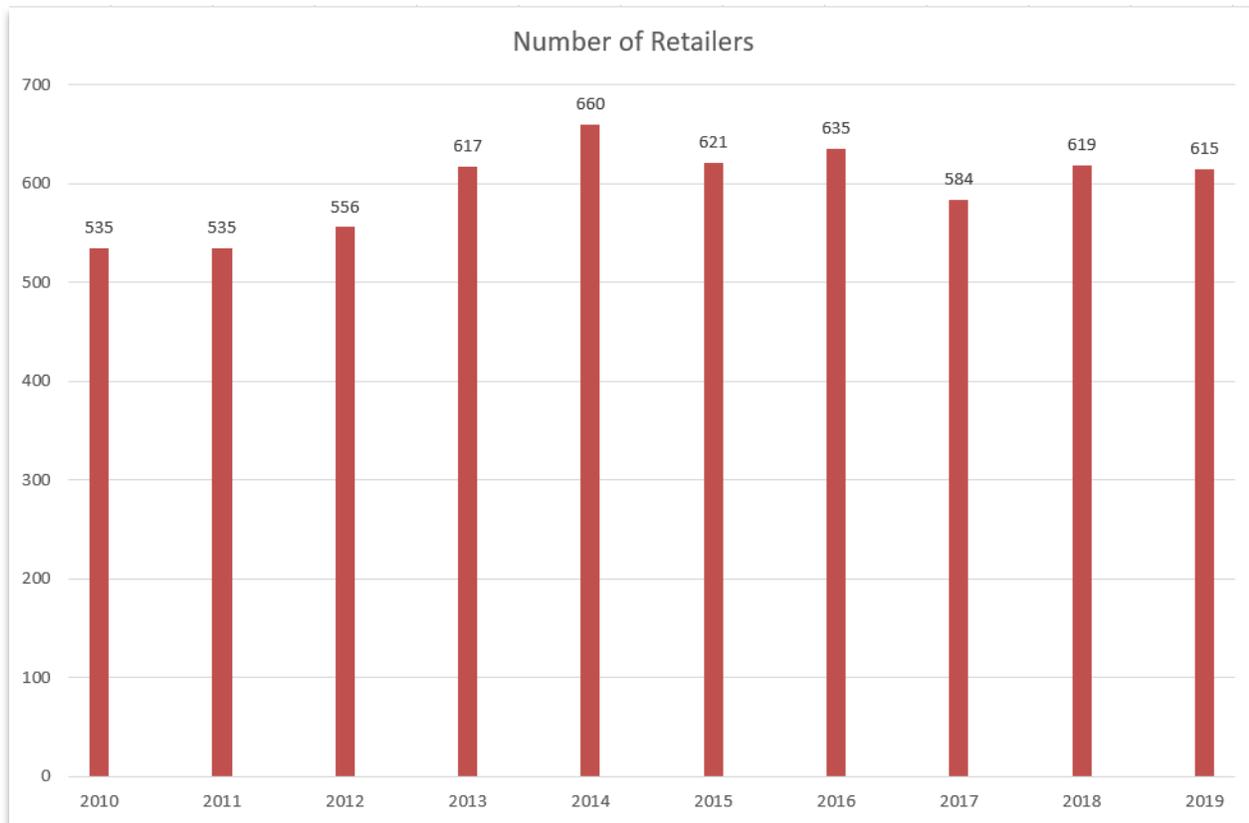


EXHIBIT III

State of Delaware
Delaware Demographic and Economic Statistics
Last Ten Calendar Years
(Expressed in Thousands, unless otherwise stated)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Population										
State	892	900	908	917	926	935	946	952	962	967
Percentage Change	0.9%	0.9%	0.9%	1.0%	0.9%	1.0%	1.2%	0.6%	1.1%	0.5%
National	306,772	309,326	311,583	313,874	316,129	318,857	321,419	323,128	325,719	327,167
Percentage Change	0.9%	0.8%	0.7%	0.7%	0.7%	0.9%	0.8%	0.5%	0.8%	0.4%
Total personal income										
State (in millions)	36,423	36,860	38,768	40,379	41,487	43,392	45,012	45,917	47,782	51,313
Percentage Change	-0.5%	1.2%	5.2%	4.2%	2.7%	4.6%	3.7%	2.0%	4.1%	7.4%
National (in billions)	12,080	12,418	13,190	13,873	14,151	14,683	15,711	16,116	16,820	18,077
Percentage Change	-2.8%	2.8%	6.2%	5.2%	2.0%	3.8%	7.0%	2.6%	4.4%	7.5%
Delaware Labor Force										
Civilian labor force	439,322	436,052	437,956	441,127	443,020	462,415	482,629	478,257	486,675	489,256
Employed	404,570	401,214	405,452	409,796	413,260	440,762	462,455	455,526	467,549	472,049
Unemployed	34,752	34,838	32,504	31,331	29,760	21,653	20,174	22,731	19,126	17,207
Unemployment rate	7.9%	8.0%	7.4%	7.1%	6.7%	4.7%	4.2%	4.8%	3.9%	3.5%

Sources:

Population is provided by the Bureau of Census, U.S. Department of Commerce (<https://factfinder2.census.gov/>) through estimates released in July.

Personal income is provided by the Bureau of Economic Analysis, U.S. Department of Commerce (<http://www.bea.gov/regional/>) estimates released in Dec 2018.

Delaware Department of Labor, Office of Occupational and Labor Market Information (<http://lmi.delawareworks.com/Content/Unemployment>) Sept 2019

Exhibit IV

DELAWARE STATE LOTTERY
Schedule of Change in Net Position and Components of Net Position,
Last Ten Fiscal Years

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue - Video Lottery, net	\$552,895,090	\$517,490,815	\$486,807,041	\$400,140,558	\$367,030,380	\$360,964,815	\$364,280,324	\$356,326,994	\$357,378,278	\$367,781,033
Revenue - I-Gaming - Video	0	0	0	0	\$1,374,944	\$1,773,149	\$2,559,090	\$2,701,931	\$2,178,023	\$3,166,045
Revenue - Traditional Lottery	122,943,197	123,939,356	134,685,576	144,108,404	148,370,099	149,817,606	175,040,937	169,723,004	176,787,968	196,317,746
Revenue - Sports Lottery	10,815,721	12,910,308	17,846,827	25,422,927	31,511,881	37,857,048	39,398,130	46,114,509	54,747,779	158,630,194
Revenue - Table Games	2,998,441	74,165,548	74,963,837	65,591,850	52,537,492	51,455,977	54,010,328	53,117,143	54,629,995	56,822,392
Total revenue	689,652,449	728,506,027	714,303,281	635,263,739	600,824,796	601,868,595	635,288,809	627,983,581	645,722,043	782,717,410
Total cost of games	343,862,671	373,555,714	373,878,198	346,106,879	332,467,983	347,266,684	370,690,457	371,547,319	379,454,891	512,316,476
Gross profit	345,789,778	354,950,313	340,425,083	289,156,860	268,356,813	254,601,911	264,598,352	256,436,262	266,267,152	270,400,934
Total operating expenses	9,586,801	11,054,570	11,363,136	11,360,971	10,920,844	10,640,462	10,733,694	10,722,244	10,446,022	10,709,014
Operating income	336,202,977	343,895,743	329,061,947	277,795,889	257,435,969	243,961,449	253,864,658	245,714,018	255,821,130	259,691,920
Non-operating Expenses:										
Standardbred Breeder's Program	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Certified Thoroughbred Program	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Contributions to the State of Delaware	331,609,108	339,895,743	325,061,947	273,795,889	253,435,969	239,961,449	249,864,659	241,714,018	251,821,130	255,691,920
Change in net position	593,869	0	0	0	0	0	0	0	0	0
Net position at beginning of year	406,131	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Net position at end of year	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Net Investment In Capital Assets	2,260	753	0	0	0	0	0	0	0	0
Unrestricted	997,740	999,247	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Total Net Position	\$1,000,000									

Exhibit V

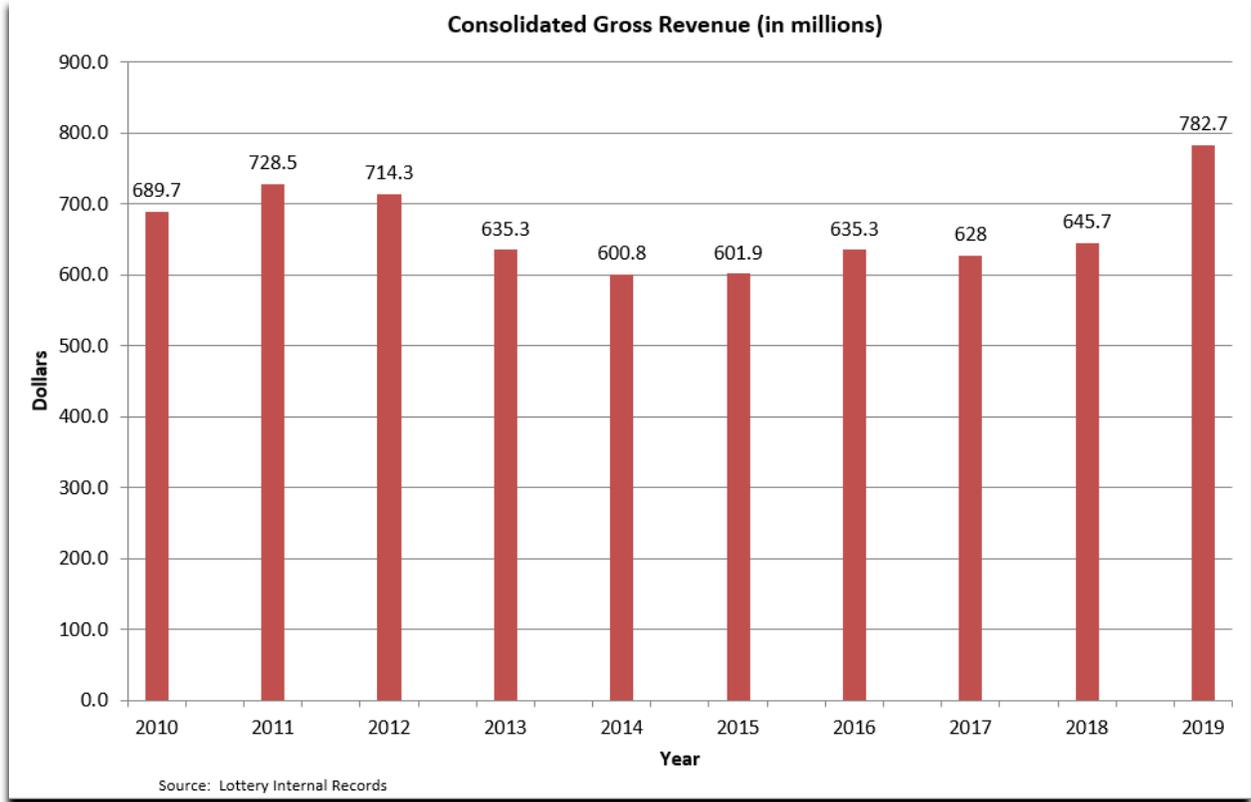


Exhibit VI

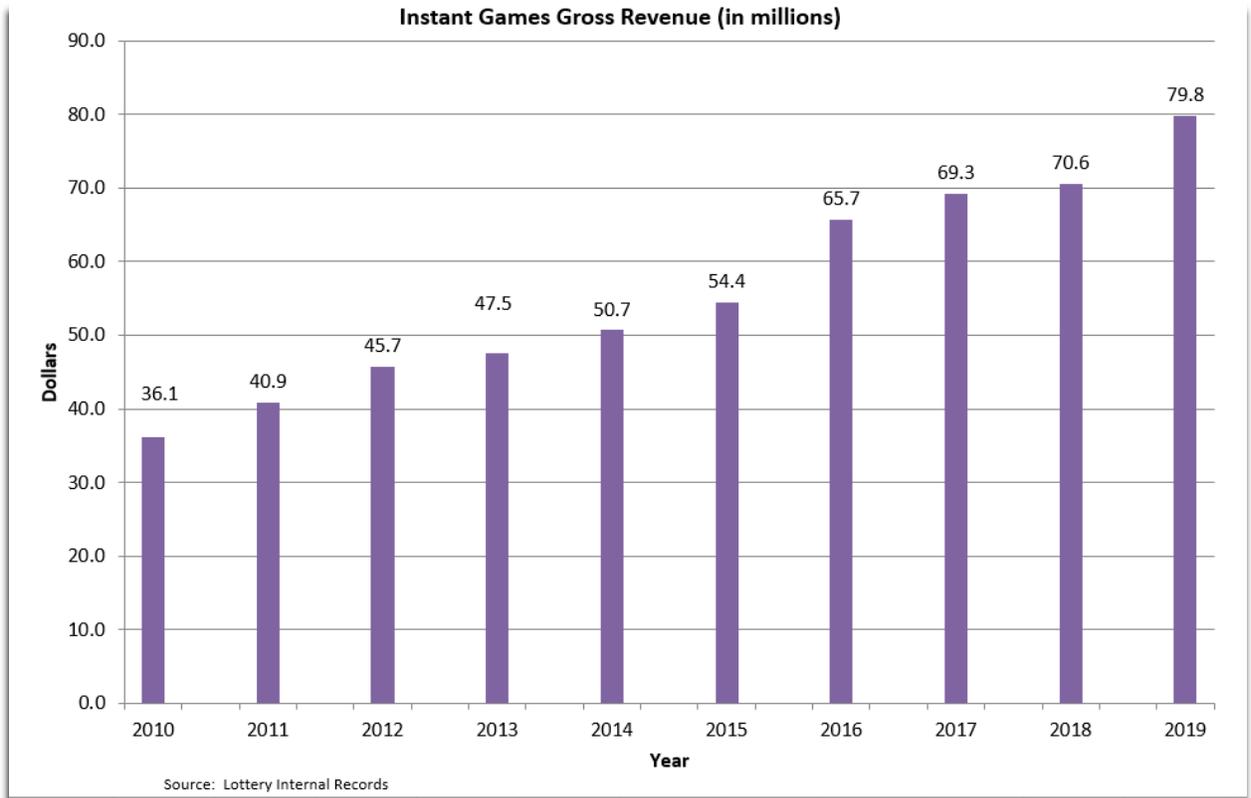


Exhibit VII

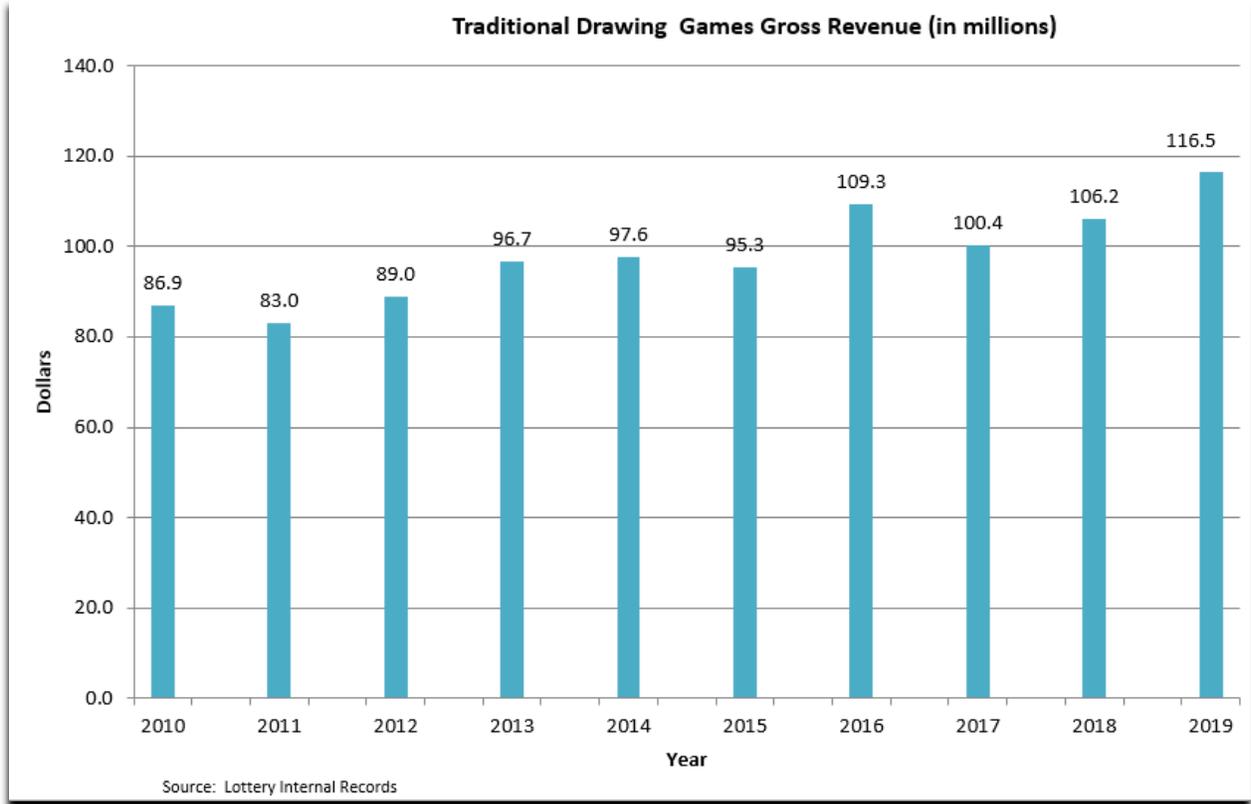


Exhibit VIII

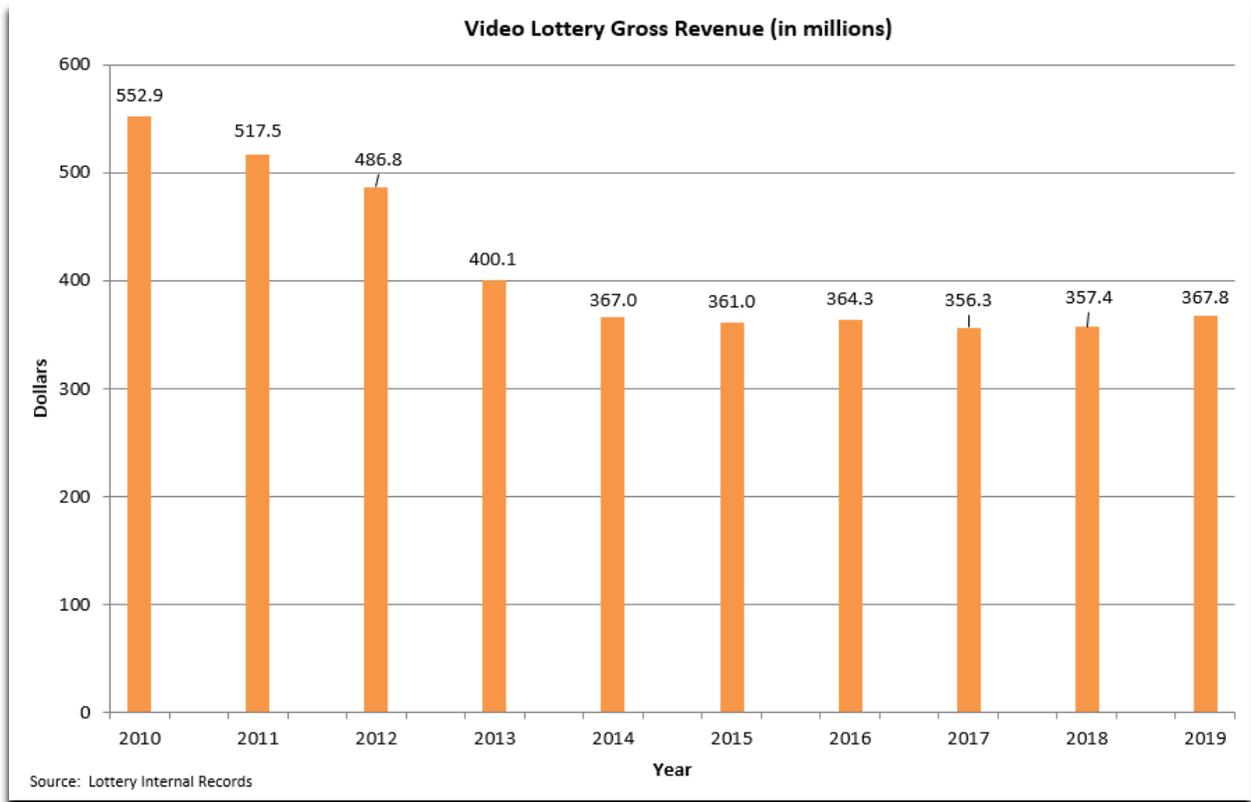


Exhibit IX

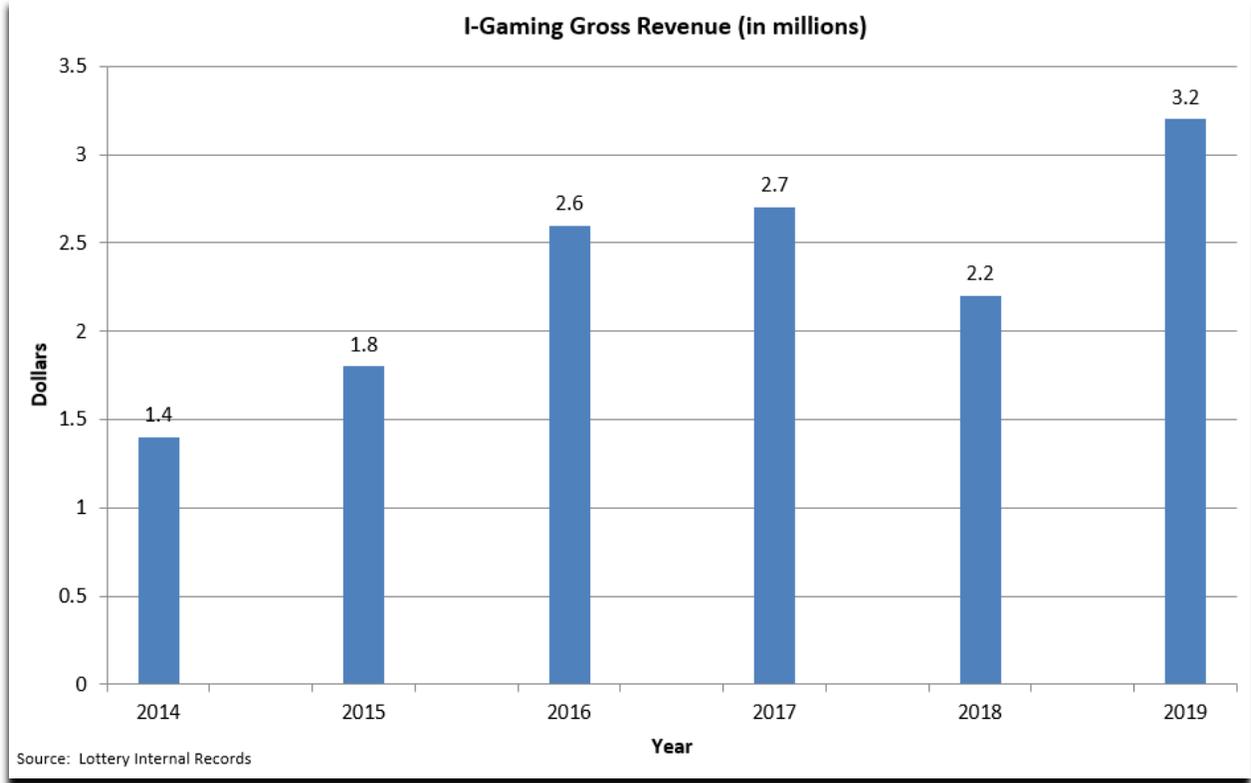


Exhibit X

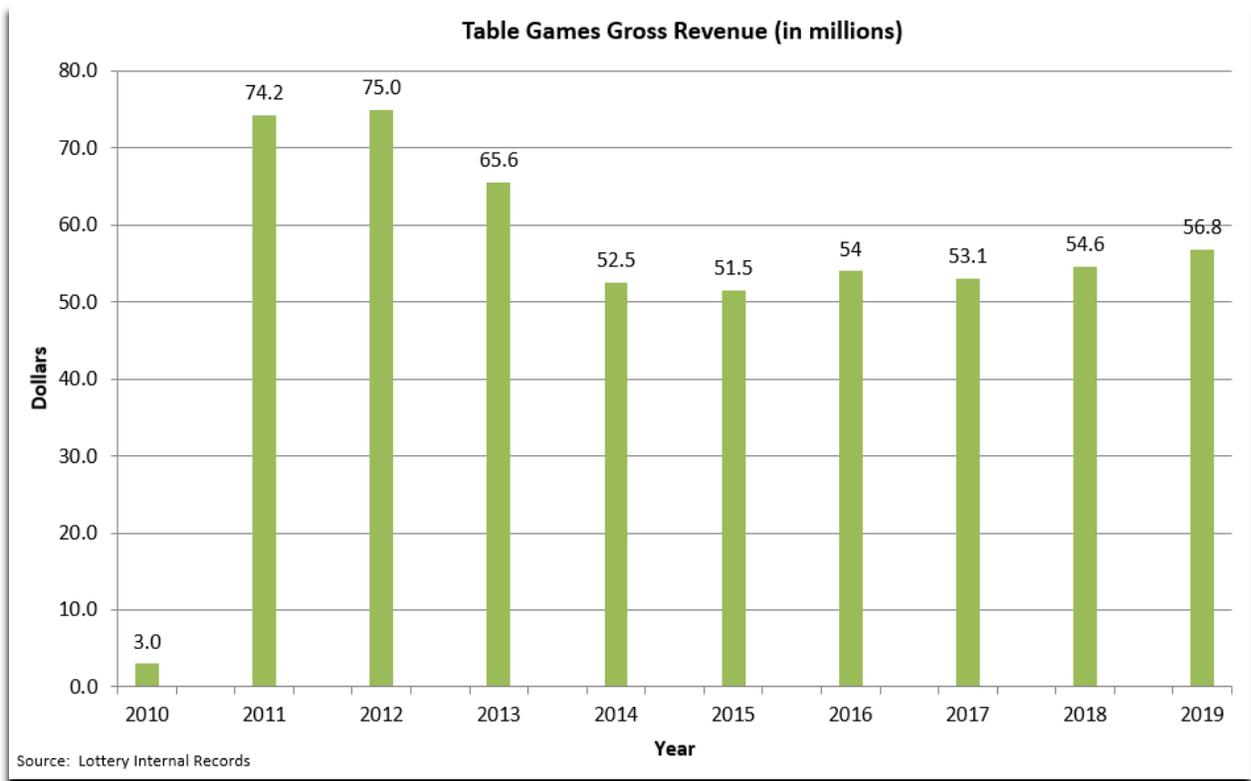


Exhibit XI

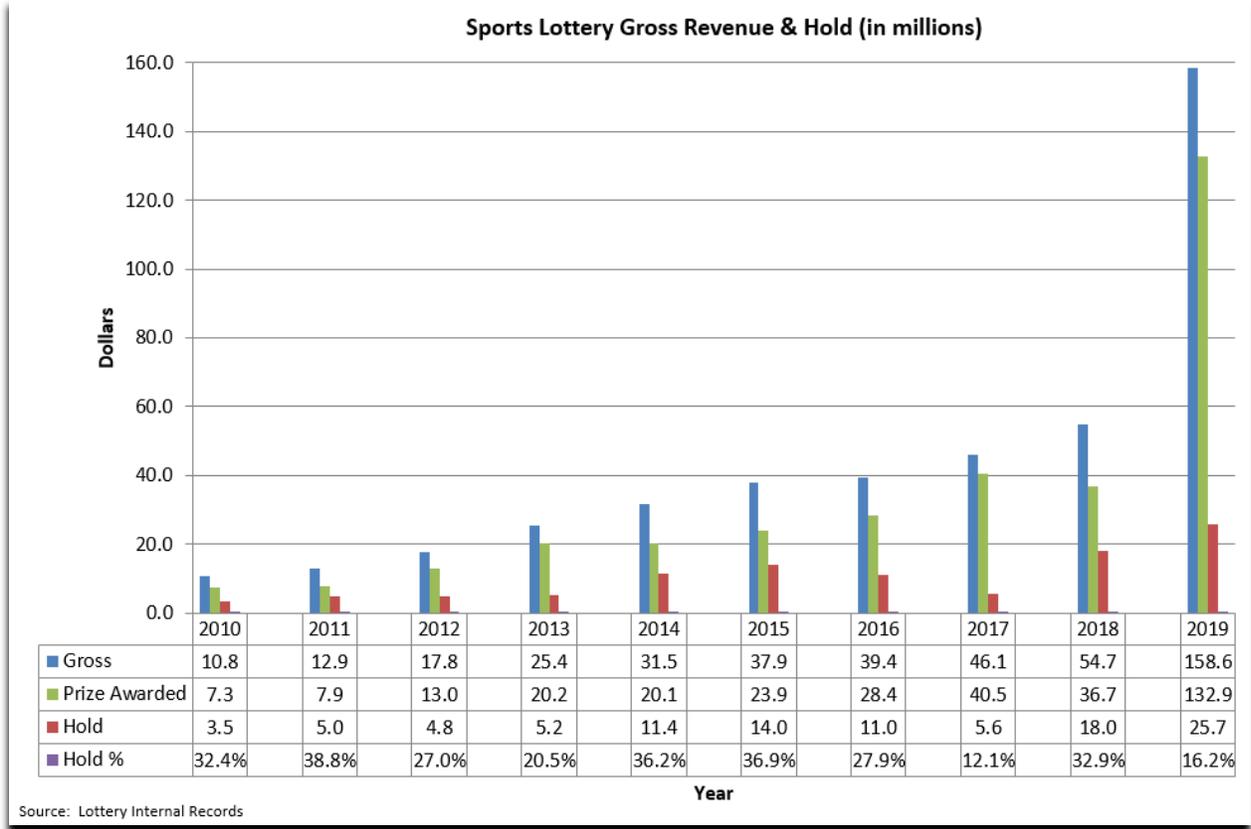


Exhibit XII

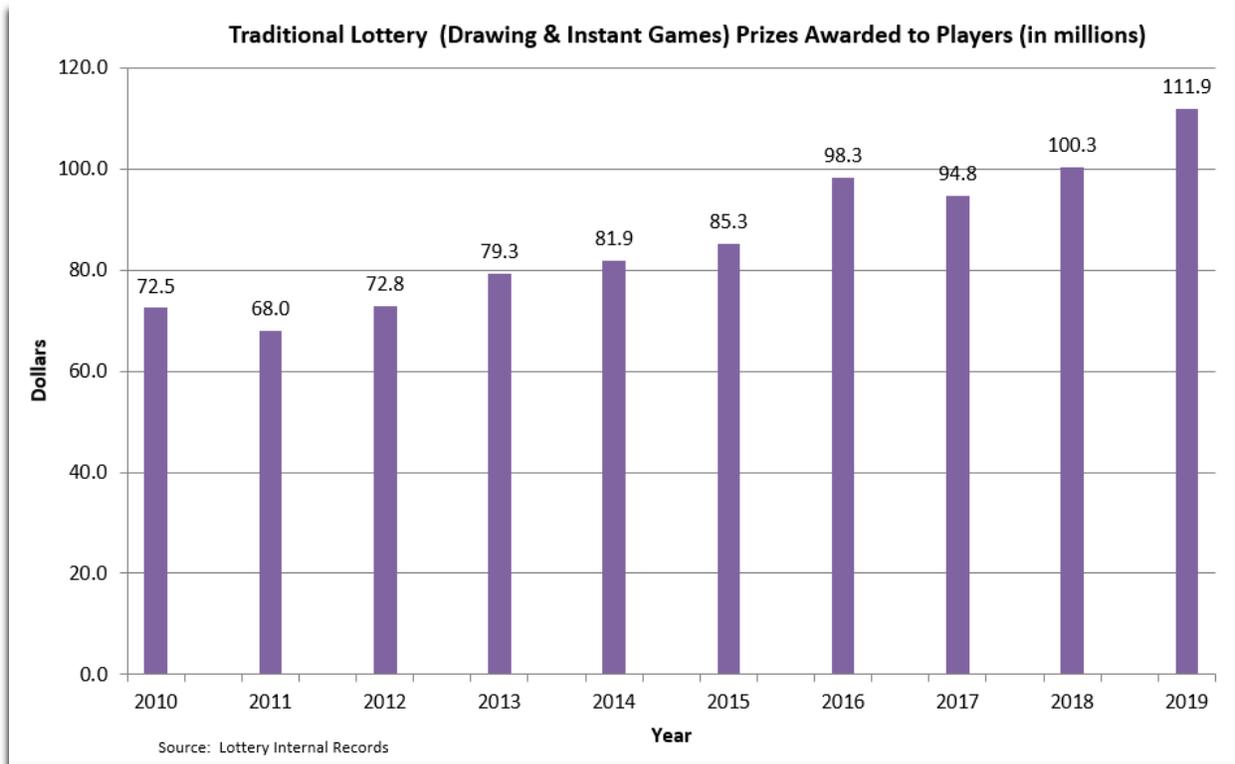


Exhibit XIII

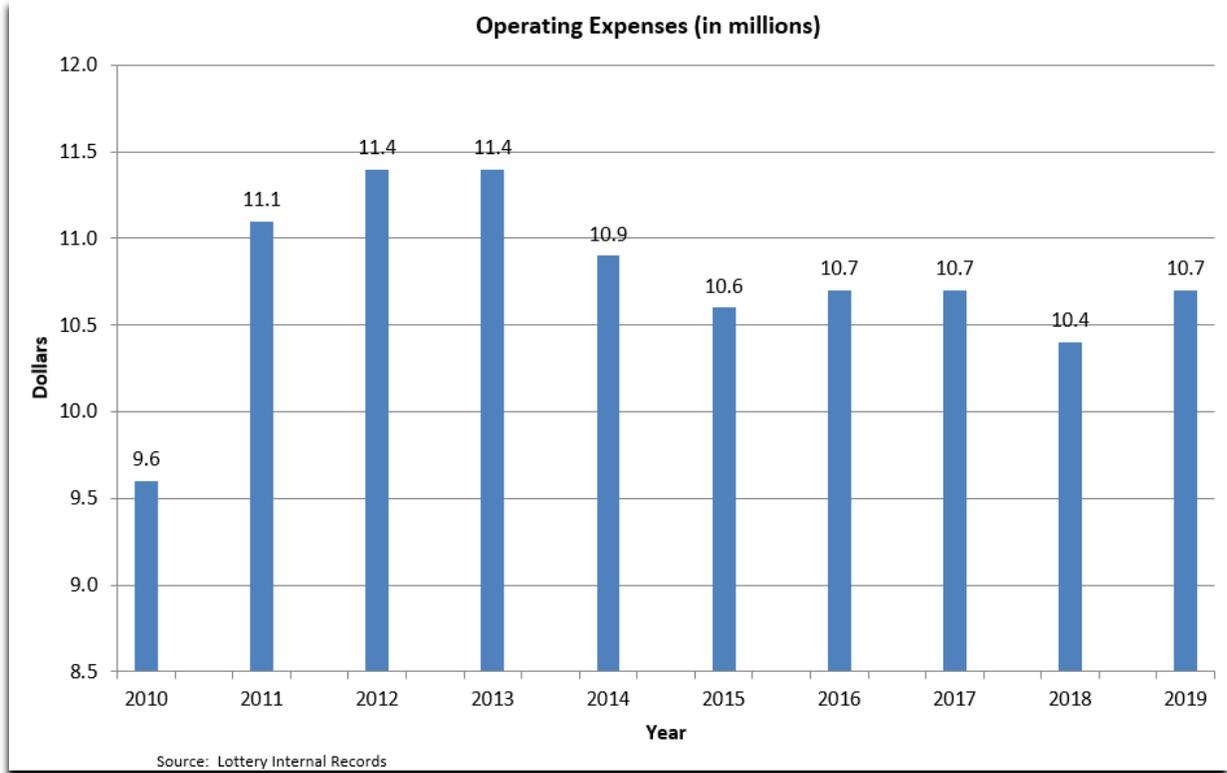


Exhibit XIV

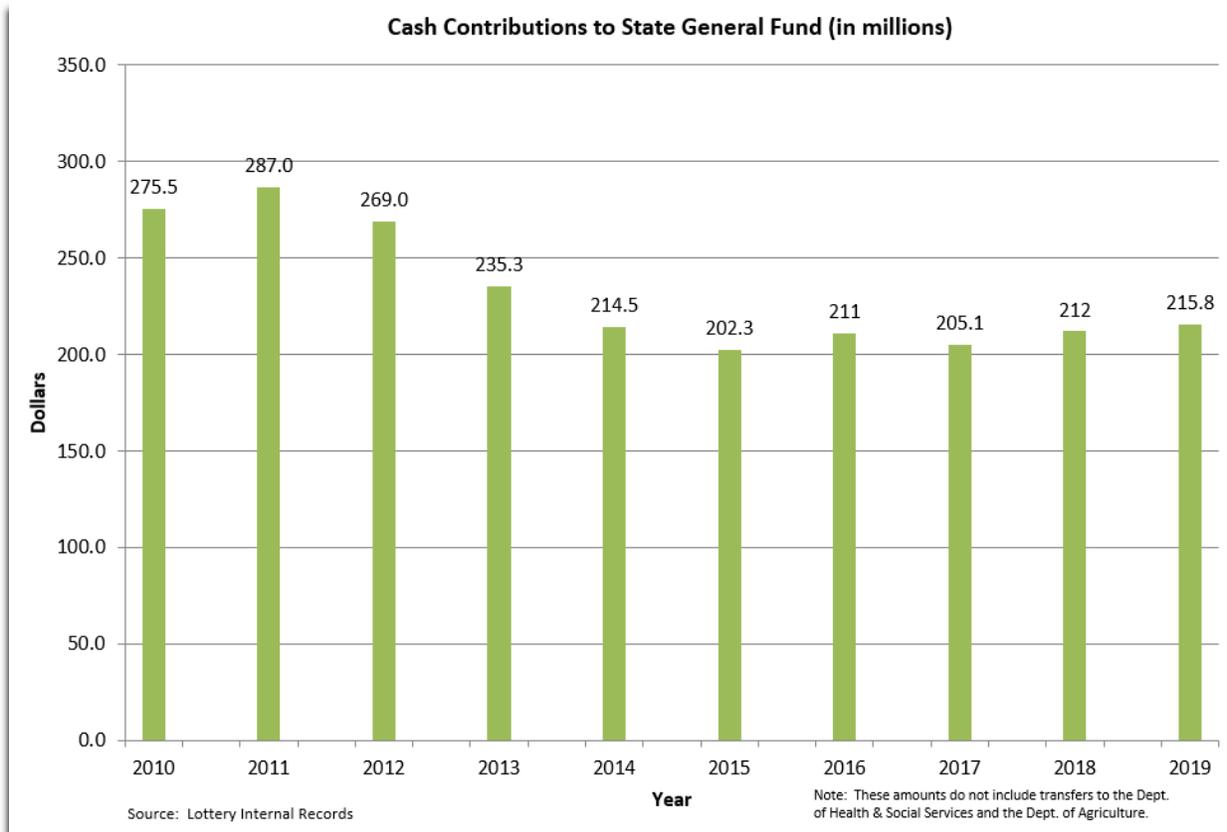


EXHIBIT XV

Delaware State Lottery

Statistics

	Traditional Lottery Revenue \$ (millions)	Instant Games Revenue \$ (millions)	Drawing Games Revenue \$ (millions)	Video Lottery & I-Gaming Net Revenue \$ (millions)	Sports Lottery Revenue \$ (millions)	Table Games Revenue \$ (millions)	Prizes Awarded to players \$ (millions)	Operating Expenses \$ (millions)	Contributions to State General Fund \$ (millions)	Total Lottery Revenue \$ (millions)
1976	6.7	6.7	0.0	0.0	0.0	0.0	2.7	17.3	2.0	6.7
1977	6.3	6.3	0.0	0.0	0.0	0.0	3.1	27.0	1.9	6.3
1978	5.4	1.6	3.8	0.0	0.0	0.0	2.6	16.2	1.6	5.4
1979	12.0	1.5	10.5	0.0	0.0	0.0	5.9	11.3	4.2	12.0
1980	16.0	1.9	14.1	0.0	0.0	0.0	8.1	9.4	5.6	16.0
1981	20.1	1.9	18.2	0.0	0.0	0.0	10.1	8.0	7.5	20.1
1982	25.6	2.2	23.4	0.0	0.0	0.0	13.3	6.7	9.5	25.6
1983	30.1	2.4	27.7	0.0	0.0	0.0	15.6	6.7	11.0	30.1
1984	33.1	2.1	31.0	0.0	0.0	0.0	15.4	6.2	14.0	33.1
1985	38.7	1.9	36.8	0.0	0.0	0.0	19.4	6.2	15.0	38.7
1986	41.1	2.4	38.7	0.0	0.0	0.0	19.7	6.3	16.7	41.1
1987	45.9	5.2	40.7	0.0	0.0	0.0	23.9	5.7	17.1	45.9
1988	55.6	9.7	45.9	0.0	0.0	0.0	29.2	5.5	20.5	55.6
1989	64.1	10.4	53.7	0.0	0.0	0.0	33.5	5.8	23.8	64.1
1990	67.2	13.8	53.4	0.0	0.0	0.0	35.0	5.5	25.1	67.2
1991	67.2	13.9	53.3	0.0	0.0	0.0	34.3	6.4	25.3	67.2
1992	78.5	15.8	62.7	0.0	0.0	0.0	41.5	6.9	27.7	78.5
1993	90.1	19.7	70.4	0.0	0.0	0.0	48.3	7.2	30.2	90.1
1994	100.6	17.5	83.1	0.0	0.0	0.0	53.4	7.1	34.3	100.6
1995	114.1	19.5	94.6	0.0	0.0	0.0	56.3	7.5	43.3	114.1
1996	111.8	23.9	87.9	77.1	0.0	0.0	58.2	10.5	57.8	188.9
1997	103.6	20.3	83.3	255.9	0.0	0.0	53.8	11.9	96.0	359.5
1998	120.7	18.2	102.5	326.7	0.0	0.0	62.4	11.2	125.4	447.4
1999	150.1	20.1	130.0	377.6	0.0	0.0	75.5	5.5	168.0	527.7
2000	102.7	19.6	83.1	453.9	0.0	0.0	51.1	6.9	185.4	556.6
2001	97.2	19.4	77.8	504.1	0.0	0.0	48.7	7.3	204.6	601.3
2002	117.2	21.0	96.2	556.8	0.0	0.0	59.2	7.3	230.0	674.0
2003	102.4	22.3	80.1	525.7	0.0	0.0	52.7	6.3	213.0	628.1
2004	108.6	25.0	83.6	532.3	0.0	0.0	53.2	5.6	222.0	640.9
2005	114.1	28.7	85.4	575.2	0.0	0.0	59.8	7.2	234.0	689.3
2006	124.5	31.4	93.1	603.5	0.0	0.0	64.9	5.7	248.8	728.0
2007	118.3	33.1	85.2	636.9	0.0	0.0	61.3	6.5	256.7	755.2
2008	124.9	35.6	89.3	617.3	0.0	0.0	65.9	7.2	252.5	742.2
2009	123.2	36.5	86.7	581.1	0.0	0.0	66.8	6.9	248.0	704.3
2010	123.0	36.1	86.9	547.7	10.8	7.5	72.5	8.8	275.5	689.0
2011	124.0	40.9	83.1	499.1	12.9	92.2	75.8	10.3	287.0	728.2
2012	134.7	45.7	89.0	474.7	17.8	85.8	86.3	10.5	269.0	713.0
2013	144.2	47.5	96.7	396.3	25.4	68.8	99.3	10.9	235.3	634.7
2014	148.3	50.7	97.6	364.4	31.5	55.8	102.0	10.5	214.5	600.0
2015	149.7	54.4	95.3	359.6	37.9	54.7	108.9	10.8	201.7	601.9
2016	175.1	65.7	109.4	363.6	39.4	57.2	126.5	10.7	211.5	635.3
2017	169.7	69.3	100.4	355.9	46.1	56.3	135.0	10.7	205.1	628.0
2018	176.8	70.6	106.2	356.4	54.7	57.8	136.5	10.4	212.0	645.7
2019	196.3	79.8	116.5	371.0	158.6	56.8	244.4	10.7	215.8	782.7
Totals	4,079.5	1,072.2	3,007.3	10,712.8	435.1	592.9	2,492.0	389.2	5,405.9	15,820.3

Exhibit XVI

U.S. Lotteries'
Comparison of Sales by Game
Fiscal Years 2019 and 2018
(in \$millions)

GAME SALES (MILLIONS)	2019	2018	% INCREASE (DECREASE)
INSTANT	\$50,053.1	\$47,930.3	4.43%
PULL TAB	103.5	99.2	4.33%
3-DIGIT	5,749.2	5,575.1	3.12%
4-DIGIT	4,782.7	4,624.0	3.43%
LOTTO	3,769.8	3,700.0	1.89%
POWERBALL	4,840.4	4,940.9	-2.03%
MEGA MILLIONS	5,145.7	3,140.8	63.83%
FOR LIFE	446.8	461.4	-3.16%
KENO	4,720.7	4,417.3	6.87%
VLT (VIDEO LOTTERY)	6,837.6	6,533.8	4.65%
OTHER	1,233.6	1,050.9	17.39%
TOTAL	\$87,683.1	\$82,473.7	6.32%

Source: *La Fleur's Magazine*, Sept/Oct 2019

EXHIBIT XVII

U.S. Lotteries' Unaudited Fiscal Year 2018 Sales by Game

(In \$millions)

State	Population (M)	Instant	Pull Tab	3 - Digit	4 - Digit	Lotto	Cash Lotto	Powerball	Mega Millions	for Life	ITG	QUICK DRAW	Other	Total Sales	PC Sales	VLT*
AZ	6.9	710.9	8.7	11.7		62.6		118.5	60.9		8.1			981.4	142	
AR	3.0	407.6		7.7	4.5	7.9		36.7	19.6	2.9	12.7			499.6	167	
CA	39.3	5,088.8		149.4	29.8	429.9		537.0	434.6			307.6		6,977.1	178	
CO	5.5	407.5		12.2		50.0		88.2	38.4	15.7		0.0		612.0	111	
CT	3.6	730.7		121.6	120.9	56.0		88.1	42.2	19.6		86.4	2.1	1,267.6	352	
DC	0.7	49.1		40.3	53.3			11.1	6.8	2.2	11.8	15.4	22.2	212.2	303	
DE	1.0	70.6		27.0	22.8	4.6	3.4	24.6	12.1	3.0		8.8	54.7	231.6	232	347.8
FL	20.6	4,652.3		366.1	259.3	578.6		474.0	220.6	59.2	17.8	0.0	72.9	6,700.8	325	
GA	10.3	3,163.4		525.4	282.6	127.2		155.9	125.6	9.8	9.5	190.9	7.4	4,597.7	446	
ID	1.7	146.9	45.4	2.4	0.0	3.5	2.7	33.1	13.6	3.3	11.1		3.1	265.1	156	
IL	12.8	1,880.5		278.1	248.8	228.4		161.2	125.0	0.0			6.5	2,928.5	229	
IN	6.6	935.0		36.4	35.0	89.3		108.1	45.9	5.4	11.8		3.1	1,270.0	192	
IA	3.1	244.3	10.9	7.7	4.3	0.0	8.6	58.5	21.3	5.6	9.7		0.0	370.9	120	
KS	2.9	171.6		7.1	0.0	11.9	9.6	40.1	17.3	6.0		14.2	6.5	284.3	98	
KY	4.4	613.1		149.7	43.5	17.7		77.9	39.8	7.8		82.8	10.3	1,042.6	237	
LA	4.7	217.2		52.1	48.7	34.9		96.2	41.9	0.0				491.0	104	
ME	1.3	219.1		5.6	4.4	1.5	15.6	24.1	8.7	3.7	6.1			288.8	222	
MD	6.0	750.9		235.4	296.2	54.3		111.2	88.6	13.2		484.0		2,033.8	339	1,046.7
MA	6.8	3,651.3	0.7		325.2	111.2		127.3	88.9	24.2		1,011.6		5,340.4	785	
MI	9.9	1,465.3	32.4	363.0	460.6	107.6		127.0	129.3	14.6	75.0	646.8	122.1	3,543.7	358	
MN	5.5	411.2		17.7	0.0	28.4	12.5	75.4	26.0	6.6	11.7	0.0	7.0	596.5	108	
MO	6.1	907.3		78.7	52.4	58.8		103.6	48.4	8.0		57.4	0.0	1,314.6	216	
MT	1.0	18.6			0.0	7.6	2.7	13.6	4.9	2.7	3.8		3.2	57.1	57	
NE	1.9	100.8		5.5	0.0	17.3	1.9	38.6	15.0	4.3				183.4	97	
NH	1.3	239.0		5.5	4.9	0.0	12.1	35.8	16.8	5.2	3.3	8.3		330.9	255	
NJ	8.9	1,852.3		421.3	267.2	223.0		231.8	180.3	41.3	29.3	53.0		3,299.5	371	
NM	2.1	72.3		5.6	0.0	7.7	4.8	29.6	13.2	0.0	0.8	0.0	0.1	134.1	64	
NY	19.7	4,178.5		887.3	927.0	309.5		408.1	311.8	94.0		793.2	29.6	7,939.0	403	1,638.8
NC	10.1	1,782.8		317.1	145.1	65.4		168.7	78.6	19.2		28.5		2,605.4	258	
ND	0.8				0.0	0.0	7.5	14.3	6.3	3.2		0.0		31.3	39	
OH	11.6	1,600.6		340.1	205.1	87.4		148.1	120.1	20.7	164.5	432.7	40.8	3,160.1	272	987.3
OK	3.9	127.6		5.3	0.0	4.7	9.2	49.6	22.8	2.0		0.0		221.2	57	
OR	4.1	130.4			1.6	41.7		60.1	30.1	0.0		102.0	2.5	368.4	90	934.0
PA	12.8	2,824.2		270.4	220.7	250.4		272.7	133.9	17.8	114.4	7.6	88.3	4,200.4	328	
RI	1.1	98.7	0.0	0.0	23.2	4.5		30.2	13.3	5.0		82.4	1.0	258.3	235	481.4
SC	5.0	1,260.6		213.1	101.1	23.9		93.2	45.5	12.7				1,750.1	350	
SD	0.9	30.2		0.0	0.0	3.3	2.8	14.4	4.7	2.6				58.0	64	220.6
TX	27.9	4,406.2		259.8	113.4	280.1		294.8	259.0	0.0				5,613.3	201	
VT	0.6	102.0		1.3	1.2	0.0	5.0	10.1	4.5	1.7	6.5			132.3	221	
VA	8.4	1,184.6		296.6	302.7	46.5		130.8	110.4	15.2	45.4		7.5	2,139.7	255	
WA	7.3	507.9		18.9	0.0	73.9		72.9	54.7				5.7	734.0	101	
WV	1.8	99.2		7.9	4.7	4.8	5.3	36.5	14.9	0.0		3.6	0.0	176.9	98	877.2
WI	5.8	419.4	1.0	23.9	13.9	70.7		98.2	39.5				0.8	667.4	115	
WY	0.6				0.0	9.8		10.8	5.3	2.9				28.8	48	
Total	300.5	47,930.5	99.1	5,574.9	4,624.1	3,596.5	103.7	4,940.7	3,141.1	461.3	553.3	4,417.2	497.4	75,939.8	9,398.3	6,533.8

Source: La Fleur's Magazine, Sept/Oct 2018

EXHIBIT XVIII

U.S. Lotteries' Unaudited Fiscal Year 2019 Sales by Game
(in \$millions)

State	Population (M)	Instant	Pull Tab	3 - Digit	4 - Digit	Lotto	Cash Lotto	Powerball	Mega Millions	for Life	ITG	Keno	Other	Total Sales	PC Sales	VLT*
AZ	7.2	750.3	9.6	12.3		68.0		111.7	103.3		17.8			1,073.0	150	
AR	3.0	407.8		7.7	4.4	9.3		34.2	33.6	3.2	15.3			515.5	171	
CA	39.6	5,174.8		153.2	30.7	429.8		521.1	736.3			346.1		7,392.1	187	
CO	5.7	443.4		12.9		47.6		86.1	72.7	17.0				679.8	119	
CT	3.6	736.4		126.7	123.0	71.9		81.4	72.6	18.9		102.9		1,333.9	373	
DC	0.7	52.2		38.6	51.7			10.0	10.3	2.1	10.6	15.9	21.9	213.3	304	
DE	1.0	79.8		27.2	23.7	4.5	3.4	25.2	20.7	2.9		8.6	158.6	354.7	367	367.1
FL	21.3	4,937.8		380.3	253.4	556.5		459.4	417.0	50.3	21.0		75.5	7,151.2	336	
GA	10.5	3,219.4		518.4	302.5	120.9		148.3	199.1	9.7	6.7	201.8	49.2	4,776.0	454	
ID	1.8	159.0	48.6	2.5		3.7	2.8	30.3	23.5	3.2	11.4		2.7	287.9	164	
IL	12.7	1,856.8		274.6	250.9	223.3		158.6	213.3					2,977.6	234	
IN	6.7	974.9		39.2	37.9	99.1		96.2	77.7	4.6	14.4		3.7	1,347.8	201	
IA	3.2	250.6	10.9	7.9	4.3		8.8	54.8	36.3	5.4	11.9			390.9	124	
KS	2.9	178.0		7.1		21.1	8.7	35.7	29.0	5.7		19.0	4.0	308.2	106	
KY	4.5	669.2		149.9	44.6	20.2		73.5	63.1	7.5		84.3	17.4	1,129.7	253	
LA	4.7	225.6		54.8	50.3	32.6		90.6	70.2					524.0	112	
ME	1.3	224.6		5.4	4.3	1.3	14.9	22.4	16.3	3.7	6.6			299.5	224	
MD	6.0	812.4		245.6	312.2	54.8		114.1	137.7	12.4		498.1		2,187.3	362	1,125.2
MA	6.9	3,673.3	0.6		325.4	114.4		132.6	154.3	24.4		1,055.2		5,480.1	794	
MI	10.0	1,654.7	32.8	389.9	487.5	116.7		133.4	172.2	14.8	68.6	614.5	145.6	3,830.8	383	
MN	5.6	435.3		18.4		29.5	11.8	68.0	48.9	6.9	11.0		7.0	636.8	113	
MO	6.1	914.8		83.4	54.7	54.5		97.7	81.8	8.3		57.3		1,352.6	221	
MT	1.1	19.3				7.6	2.4	12.5	9.4	2.7	4.0		3.2	61.3	58	
NE	1.9	104.1		5.8		15.8	1.9	35.8	24.4	4.1				192.0	100	
NH	1.4	250.6		5.4	4.8		11.6	35.7	30.3	5.4	5.1	26.9		375.9	277	
NJ	8.9	1,868.4		404.8	259.1	236.6		236.3	284.3	37.1	22.8	129.7		3,479.1	391	
NM	2.1	74.9		5.5	1.1	7.3	4.5	26.9	22.5		0.9		0.1	143.6	69	
NY	19.5	4,226.7		931.4	955.5	311.6		432.4	437.5	87.9		814.1	30.6	8,227.6	421	1,663.1
NC	10.4	1,908.9		352.1	161.6	73.3		158.7	142.1	20.5		42.5		2,859.6	275	
ND	0.8						7.9	12.8	11.2	3.5				35.4	47	
OH	11.7	1,663.0		354.0	216.9	83.5		143.3	192.7	20.4	171.6	470.8	44.5	3,360.8	288	1,058.6
OK	3.9	136.0		5.7		4.0	7.2	44.4	39.8	4.6				241.7	61	
OR	4.2	131.2			1.8	42.0		49.8	50.2			102.7	2.3	380.1	91	966.5
PA	12.8	2,989.7		269.2	225.3	271.9		260.5	229.5	16.7	103.3	46.7	90.6	4,503.3	352	
RI	1.1	102.9	0.0		23.0	3.9		27.2	20.2	5.0		79.8	1.2	263.3	249	522.8
SC	5.1	1,450.4		217.6	103.7	23.5		92.9	80.1	12.6				1,980.9	390	
SD	0.9	32.4				3.9	2.4	13.1	8.7	2.6				63.1	72	230.2
TX	28.7	4,844.4		260.2	122.2	271.7		340.3	408.5					6,247.2	218	
VT	0.6	107.0		1.2	1.2		5.0	9.4	8.0	1.8	5.7			139.3	222	
VA	8.5	1,221.9		329.2	326.4	47.0		125.5	167.0	18.2	50.6		7.9	2,293.6	269	
WA	7.5	523.9		19.5		92.7		69.4	91.9				5.9	803.3	107	
WV	1.8	115.6		7.9	4.6	4.8	5.4	33.3	24.5			3.9	1.2	201.3	111	904.1
WI	5.8	450.4	1.0	23.6	14.1	75.2		84.8	63.3				0.8	713.1	123	
WY	0.6					15.1		9.8	9.4	2.7			0.6	37.6	65	
Total	304.2	50,053.1	103.5	5,749.2	4,782.7	3,671.2	98.6	4,840.4	5,145.7	446.8	559.0	4,720.7	674.6	80,845.5	10,008	6,837.6

Source: La Heur's Magazine, Sept/Oct 2019