

DELAWARE STATE LOTTERY

An Enterprise Fund of the State of Delaware



COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

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Prepared by:

The Finance and Accounting Department of the Lottery

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Delaware State Lottery

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INTRODUCTORY

SECTION



**STATE OF DELAWARE
DEPARTMENT OF FINANCE
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December 18, 2014

The Honorable Thomas J. Cook
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, 2014. 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, 2013.

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 as of and for the years ended June 30, 2014 and 2013. Please refer to management's discussion and analysis section that begins on page 29 of this report.

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 Delaware State Lottery Office (the Office) operates traditional lottery games, video lottery, sports lottery and table games such as blackjack and poker. 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 Delaware State 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 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 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 at least 30 percent of total revenue will be paid to the General Fund of the State of Delaware.

Traditional Lottery tickets are sold via a network of 660 retailers (as of June 30, 2014) representing various types of businesses as depicted in the charts on page 5.

TRADITIONAL LOTTERY PRODUCTS:

Instant games 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.

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.

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.

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.

During January 2005, the Lotto game was changed to Multi-Win Lotto. 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 drawing game jointly operated by 44 state lotteries of which 33 are members of the Multi-State Lottery Association (MUSL) (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 59" for the first set and a matrix of "1 of 35" 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. The minimum jackpot offered is \$40 million. There are eight prize levels up to \$1 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.

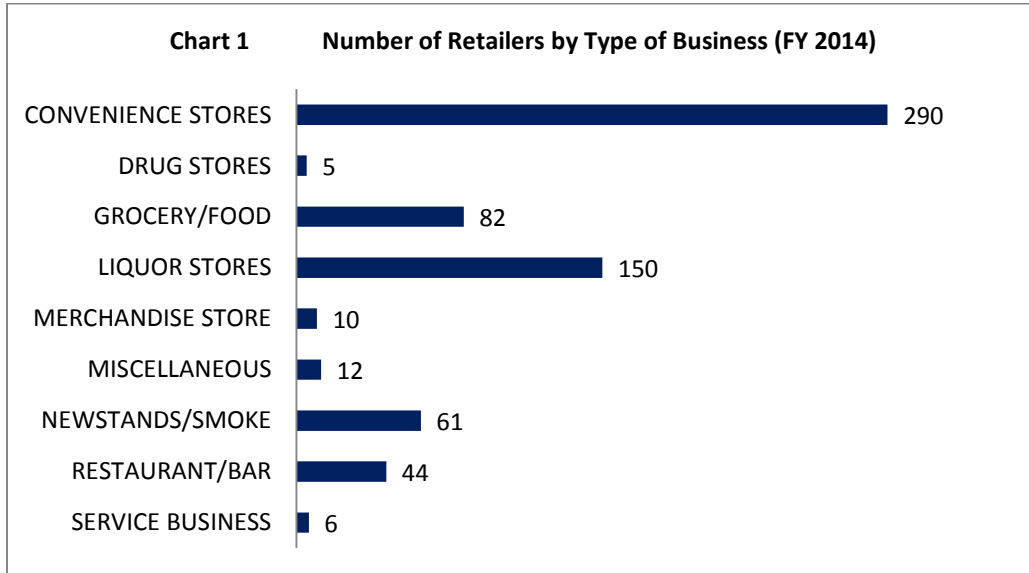
During February 2008, the Lottery began to sell tickets for the Hot Lotto game. The Hot Lotto game is also a traditional lottery game jointly operated by 15 state lottery members of MUSL. Players pick two sets of numbers for each draw. Hot Lotto has a matrix of "5 of 47" for the first set and a matrix of "1 of 19" for the second (Hot ball) set. The minimum jackpot offered is \$1 million, plus eight prize levels up to \$30,000. Drawings are held every Wednesday and Saturday. An additional feature is the Sizzler option. Players can wager an additional \$1 for each Hot Lotto game that they chose to play. If they win a set cash prize, they're guaranteed to triple that amount.

During January 2010, the Lottery began to sell tickets for Mega Millions, one of the country's biggest jackpot games. Mega Millions tickets cost \$1 per play and players select five different numbers from 1 to 75 from one pool of numbers, and one Mega Ball number from 1 to 15. 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.

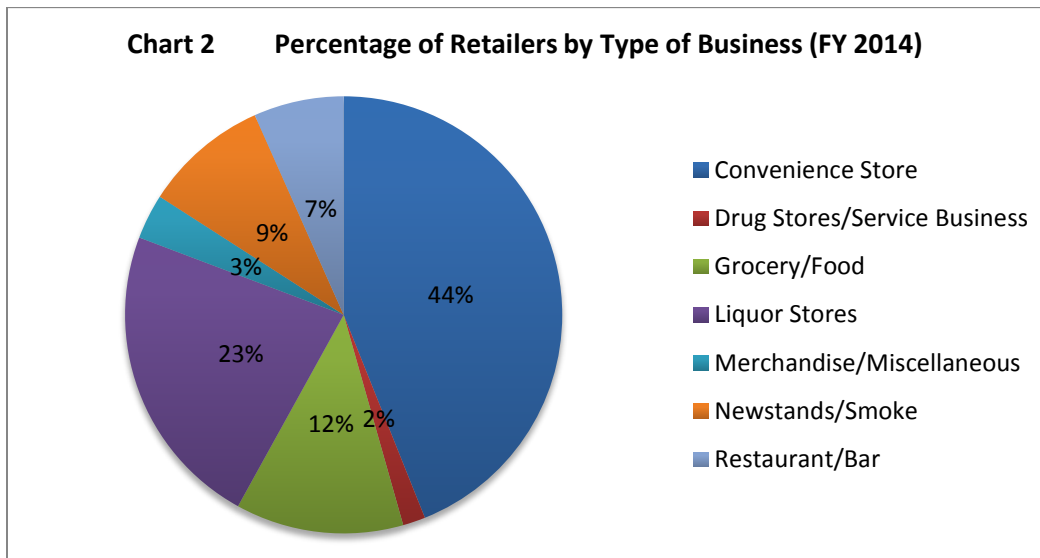
During February 2011, the Lottery introduced Delaware Cash 5. Players may pick 5 numbers from 1 to 33. Drawings are held every Tuesday and Saturday night. Tickets may be purchased for \$1 per game. There is a minimum cash jackpot of \$25,000 offered with each game.

During January 2013, Keno was launched at more than 100 retail locations. Keno is an easy, fun and fast-paced 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.



Source: Lottery Internal Records



Source: Lottery Internal Records

VIDEO LOTTERY:

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, 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, 2014, there were 2,212 machines at Delaware Park, 2,415 machines at Dover Downs and 1,814 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 50 Charitable Gaming Organizations with over 400 machines operating throughout the state.

INTERNET GAMING (I-Gaming):

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 both traditional and casino style online wagering. The Lottery launched the nation's first full-scale on-line 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 launch also introduced the nation's first "shared liquidity" poker network, allowing players from multiple internet casinos to sit in one common poker room and play against each other.

SPORTS LOTTERY:

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 a sports lottery only at the three casinos presently operating. Proceeds from the conduct of the 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 FY 2012 with the passage of House Bill 333, *The Delaware Gaming Competitiveness act of 2012*.

The Delaware State Lottery Office proceeded to promulgate rules and regulations for the sports lottery and engaged a vendor to provide a sports 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, thirty-one Sports Lottery retail locations were established throughout the State. The number of Sports Lottery retailers was increased to sixty-nine the following season and then to eighty-three for the 2014/2015 season.

TABLE GAMES:

On Jan 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 Jan 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 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.

In addition to promulgating rules and regulations for table gaming in Delaware, the Lottery established core Minimum Internal Control Standards of operations for the agents to follow. The Lottery partnered with a local community college to establish a dealer training program and issued gaming licenses following certification and a satisfactory background investigation.

For proper regulatory oversight, the Lottery hired and trained gaming inspectors, inspector supervisors, revenue & compliance auditors and an audit manager. Gaming inspectors are on-site at the casinos 24/7 and an auditor is assigned to each venue.

Harrington Raceway's table games opened on May 24, 2010, with 39 gaming tables and 10 poker tables, followed by Delaware Park's opening on June 14, 2010, with 42 gaming tables and 20 poker tables and finally Dover Downs opening on June 21, 2010, with 40 gaming tables.

ECONOMIC OUTLOOK

U.S. LOTTERY INDUSTRY:

Based on statistics compiled by *LaFleur's*, a gaming industry publication, total unaudited traditional game sales for U.S. lotteries increased 3% to \$63.5 billion in fiscal 2014. This is an increase of \$1.9 billion over fiscal 2013. (Please see Exhibit XIX in the "Statistical Section" of this report).

The California Lottery led the industry with a 13% increase in fiscal 2014 sales. The New York Lottery ranked first in gross traditional sales at \$7.3 billion. The Massachusetts Lottery ranked first in per capita total sales at \$721.

Total U.S. instant ticket sales increased 4% to \$38 billion, delivering \$1.5 billion in additional sales to the bottom line in fiscal 2014. Instant ticket sales accounted for 60% of the U.S. lotteries' total traditional sales. The Massachusetts Lottery ranked first in per capita instant sales at \$504. The North Carolina Education Lottery ranked first with an 16% increase in fiscal 2014 instant sales.

In FY 2014 traditional draw games jumped 1% to \$25.4 billion. The California Lottery led the industry with a 22% increase in drawing game sales. The New York Lottery ranked first in gross drawing game sales with \$3.6 billion. The D.C. Lottery ranked first in per capita draw sales at \$271.

U.S. lotteries' combined video lottery terminal revenues totaled \$6.1 billion, up 4% from \$5.8 billion, in fiscal 2013. Video lottery revenues are reported separately and are not included in the "Total Sales" column in Exhibit XIX in the "Statistical Section" of this report.

STATE OF DELAWARE:

Delaware's recent economic performance has largely mirrored national trends in terms of employment and income growth. The State's unemployment rate for 2013 compares favorably with the national rate and the Mid-Atlantic region's rate. More recently, however, Delaware has experienced an unemployment rate aligning more closely to the national average with an uptick mostly attributable to growth in the labor force as improving job prospects embolden formerly discouraged workers. Positive job gains in the professional business services, financial services, and construction sectors bode well for the State's medium term employment outlook. In addition, Delaware's per capita personal income is expected to modestly surpass that of the nation in the next two years owing to the job outlook and strong levels of in-migration. The Federal Reserve Bank of Philadelphia's leading index for the State remains strong, projecting an expansion in the economy through the first quarter of 2015.

As a result of active economic development policies, Delaware's economy is now based in large part on service-providing enterprises, especially financial activities. Delaware has targeted statutory and tax policy changes to encourage financial sector development and the State's major employers, Bank of America, N.A., JPMorgan Chase & Co., Barclays Bank Delaware and now Capital One, continue to maintain a major presence in the State and demonstrate the State's importance as a financial center. In the short and medium terms, Delaware's financial sector is expected to benefit from a rebound in the credit card industry as result of improving consumer fundamentals, a steady U.S. economic recovery, and rising demand for credit card borrowing.

To enhance its position in an increasingly competitive gaming market and to increase employment across the State, Delaware diversified its gaming portfolio to include sports betting and Keno at multiple retail venues and, in November 2013, introduced i-gaming to in-state consumers via the internet. In February 2014, Governor Jack Markell of Delaware and Governor Brian Sandoval of Nevada signed a multi-state internet agreement that will allow poker players from both states to

participate in a combined player pool creating a larger marketplace. Delaware continues to explore additional gaming offerings and multistate compacts for online gaming.

Through strategic investment, the State continues to pursue high technology industries, including life sciences research and development, pharmaceuticals, agricultural biotechnology, human biotechnology, information technology and, more recently, alternative energy and other green industries. The State has made a significant investment to establish the Delaware Biotechnology Institute, a partnership involving State government, the State's higher education institutions and the private sector. The Institute is designed to expand the State's scientific base and create opportunities for the development of new technologies in the emerging life sciences field.

Delaware's business-friendly legal system continues to attract new incorporations. Even though initial public offering ("IPO") activity has only started to recover in 2013, the State has continued to register a record number of business formations in the form of limited liability companies and limited partnerships. Between 2011 and 2013, the number of new business entities that were formed in Delaware rose 19,600 to 152,897, bringing the total number of business entities registered in the State to more than 1,052,000.

MAJOR INITIATIVES

GENERAL:

For Fiscal Year 2014 the Delaware Lottery generated General Fund contributions of \$214.5 million.

During Fiscal Year 2014, Delaware Lottery's traditional products had a record sales year of \$148.3 million, which represented a 3 percent increase over Fiscal Year 2013. Sales were led by the multi-state jurisdiction jackpot games Powerball and Mega Millions, as well as instant scratch-off games. In another HB333 initiative, during the second half of FY 2013 the Lottery launched Keno with an initial group of 80 retail locations. By the end of FY 2014 that number had reached to just over 100 and the network continues to experience steady growth.

During Fiscal Year 2014, Lottery was tasked with continuing the implementation of House Bill 333, The Delaware Gaming Competitiveness Act of 2012. The four main components of the act were the expansion of the Sports Lottery into retail locations, the launch of Keno in retail locations, and the authorization of both traditional and casino style online wagering. The Lottery continued the Sports Lottery expansion into retail locations that began in FY 2013. During FY 2014, the number of retail establishments participating in Sports Lottery more than doubled to over 70 retail establishments during the 2013/2014 pro football season. The result was a jump in handle from \$25.4 million in Fiscal Year 2013 to \$31.5 million in Fiscal Year 2014, an increase of 24 percent, with no cannibalization of the tracks.

FY 2014 also saw the results of the Lottery's FY 2013 RFP for an Internet Gaming service provider. Utilizing a "best of breed" approach, the Lottery launched the nation's first full-scale on-line 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 launch also introduced the nation's first "shared liquidity" poker network, allowing players from multiple internet casinos to sit in one common poker room and play against each other. Shortly after the introduction of on-line casino wagering in Delaware, the Governors of Delaware and Nevada worked diligently to continue to break new ground. By February of 2014, the two States had established the legal framework for creating regulated, multi-jurisdictional on-line poker rooms. The multi-state agreement signed by the Governors of Delaware and Nevada will allow players from Delaware and Nevada to participate in a common poker game. This feature will continue to drive multi-state gaming revenue by increasing the number of players available at every stake and game style at any time of day the player wishes to play.

Additionally, Senate Bill 112, passed July 1, 2013 established final legislation regarding the implementation and oversight of Charitable Gaming Organizations (CGO) initially authorized by House Bill 1, passed as a temporary measure in January 2013. The final language modified the number of charitable gaming machines allowed by any individual CGO and increased the Lottery's oversight and administrative responsibilities by requiring that Charitable Gaming Vendors now contract directly with the Lottery itself.

The following items demonstrate the division's accomplishments during Fiscal Year 2014:

- Delaware ranked third out of the 44 U.S. Lotteries with combined per capita annual sales of \$600.8 in Fiscal Year 2014.
- Delaware ranked fifth out of the 44 U.S. Lotteries with combined per capita profit to the State of \$214.5 in Fiscal Year 2014.
- Delaware ranked fourth out of the 44 U.S. Lotteries offering both Powerball and Mega Millions with combined per capita annual sales of \$40 for those games in Fiscal Year 2014.
- Since the commencement of video lottery and table games, The Delaware Lottery has contributed \$28.85 million to the Department of Health and Social Services to help fund initiatives that address problem gambling in Delaware.

VIDEO LOTTERY:

With more than 6,500 games in play, video lottery net proceeds for the fiscal year totaled more than \$363 million.

The multi-jurisdictional, wide-area progressive Video Lottery Game Group, consisting of Delaware (Chair), West Virginia, Rhode Island, and newly joined Ohio, administered under the auspices of the Multi-State Lottery Association, continued to offer the Mega Hits games, which have consistently outperformed all other video games at each of Delaware's three race tracks. In Fiscal Year 2015 Maryland will become the fifth state to join the Game Group. The Lottery and the Department of Technology and Information continued to work together to enhance the Lottery's initiative of an electronic/online casino employee licensing process, and have an expected roll-out of the system the first quarter of FY2015.

A local Delaware woman won a significant jackpot of \$587,559 while playing the IGT Mega Hits Multi-state Progressive game at Dover Downs Hotel and Casino on July 27, 2013. Another significant IGT Mega Hits Multi-state Progressive jackpot of \$225,433 was won at Dover Downs Hotel and Casino on October 13, 2013.

New contracts were signed with six (6) Video Lottery Terminal (VLT) vendors that included previous vendors IGT, Bally, WMS and Spielo and first time vendors Aristocrat and Ainsworth. Two (2) year contract extensions were signed with our current suppliers of electronic table games Spielo and SHFL. A one (1) year contract extension was signed with the Lottery's Independent Testing Laboratory Gaming Laboratories International.

The Lottery and the Delaware Department of Technology and Information contracted with a new provider to develop a new online electronic licensing application system to replace the Lottery's current system.

Pursuant to legislation enacted in 2013, the Lottery installed the first Charitable Video Lottery Terminals at a Charitable Gaming Organization that were connected to the Lottery's central monitoring system. All other terminals currently in use are not capable of reporting to the system.

TABLE GAMES:

Fiscal Year 2014 was the fourth full year of table games (blackjack, roulette, craps, poker, etc.) at the tracks. The three casinos offered a combination of 113 gaming tables and 73 poker tables. All three venues have added new table games to their floors. They continue to explore different types of products and promotions to make their location as attractive as possible.

During fiscal 2014, more than 60 change requests were received from the casinos asking for changes to their Internal Controls. Their requests ranged from the addition of new games to changes in processes on the gaming floor. Also, over 140 requests were made to host a variety of table game tournaments and promotions, which included Blackjack, Craps and Poker.

Delaware Park continued to make refinements to their gaming floor. They reviewed all of their current offerings of games, tournaments and promotions. During this review they removed games that did not perform as expected and added replacement games. This was done to ensure patrons are given the best available selections.

Dover Downs offers a variety of Poker tournaments and promotions as well. They continue to offer a match play program in addition to a wide variety of tournaments and promotions. Dover Downs also removed games that did not meet expectations.

Harrington offers several types of promotions and tournaments. During fiscal 2014, they offered monthly Craps, Blackjack and Poker tournaments. Harrington also offers a match play program to their patrons. Free gaming lessons are also offered during the annual State fair.

INFORMATION TECHNOLOGY:

During Fiscal Year 2014, the Lottery IT staff continued the support of all internally developed Lottery IT applications including the Draw-Utility application, the Table Games Violations application, and the Player Information Line Activity Reports application.

The IT department was heavily involved in the I-Gaming project including test planning, user acceptance testing, and change management control.

During the year, the IT department was able to overcome many difficulties and successfully establish the Lanham backup site as a part of the Delaware State Network using VPN technologies. We have also moved our Security System to a separate segment of the main Lottery's network making the systems more secure.

In Fiscal Year 2014, the Lottery IT has successfully upgraded our file server from Windows 2003 to Windows 2012.

FINANCE:

During Fiscal Year 2014, the Delaware Lottery earned its fifteenth consecutive Certificate of Achievement for Excellence in Financial Reporting awarded by GFOA of the United States and Canada for the Lottery's Comprehensive Annual Financial Report. The certificate of achievement is the highest form of recognition in the area of governmental accounting and financial reporting.

The Finance Department worked diligently during the past year with a short staff, due to retirement of the Fiscal Administrative Officer, to maintain accurate and timely financial reports. Training of new employees on processes and procedures enabled the team to identify areas of improvements in internal controls and update policy and procedure manuals.

The Finance team helped with acceptance testing of new traditional products and has been a key to the installation of the new I-Gaming program and reporting process.

MARKETING AND SALES MANAGEMENT:

Delaware Lottery's marketing program continued its relationship with both the University of Delaware and Delaware State University, participating in a variety of cooperative sports programs conducted during the winter sports season. In addition, Lottery maintained its long-standing sponsorships with the Delaware State Fair and Punkin' Chunkin', as well as participating in more recent associations with such diverse events as the Wyoming Peach Festival and Saint Anthony's Italian Festival.

During Fiscal Year 2014, the Lottery expanded its community based activities to include the Triple Threat Beer & BBQ Festival in Harrington, the Wilmington Riverfront Blues Festival, Milford's Bud and Bug Festival, Old Dover Days, and the Delaware 87ers.

The Delaware Lottery's Instant Product line started Fiscal Year 2014 off to a great start with the introduction of a new licensed property game, The Walking Dead™. The Walking Dead™ instant game was so successful the Lottery had to place a second order of tickets. The instant product line continued to soar throughout the year and ended with record sales of over \$50 million. As a result of the success of instant sales, The Lottery's State of the Industry reported the Delaware Lottery's instant sales ranked 10th in the Top Ten report for Weekly Per capita Percentage Growth and Total Percentage Growth for Fiscal Year 2014.

In an ongoing effort to provide new games, play styles, and enhanced prizes to adults who live in or visit Delaware, the Lottery joined with 45 peer lottery jurisdictions in launching a new version of the popular game Mega Millions on October 19, 2013. The new version is designed to create bigger jackpots, second-tier prizes of up to \$5 million with a Megaplier feature, and better overall odds. Our current fiscal year Mega Millions sales are trending a 4.6% increase over the previous fiscal year.

During fiscal 2014, the Lottery increased its network through the expansion of traditional Lottery games with the introduction of Keno and the expansion of Sports Lottery. In just six months our retailer network increased from 550 locations to over 650 with the addition of these games. The total number of businesses licensed as Lottery retailers throughout the State has reached and stabilized at its highest level in nearly 30 years. Over 650 individual locations sell Traditional and Sports Lottery ticket games. Approximately 37% of the network is comprised of multiple-unit and interstate corporate chain accounts.

To enhance our relationship with players and the public through timely and meaningful messages, Twitter and Facebook members receive the most important and most interesting information about the Lottery, our programs and promotions through the Lottery's Twitter feed and Facebook page on a daily basis. Since we launched our Twitter and Facebook pages in October 2012, our Twitter followers have grown to 1,423 and our Facebook fans have reached over 10,000.

In addition, the Lottery continued its effective use of an incentive program that rewards retailers with bonuses for increases in product sales. Under the program, Lottery game sales for the current six-month sales period are compared to game sales for the same six-month period from the prior year. The retailer incentive program is one of the key factors in the Lottery's ability to show long-term sales increases for the mature ticket product line.

SECURITY AND SUPPORT SERVICES:

During fiscal year 2014, the Security and Support Services group of the Lottery continued their concentration on managing the user acceptance testing (UAT) for traditional lottery, instant tickets, randomizer and internal control systems. There were six releases tested for the traditional lottery online

system and three for the instant ticket system. The Security and Support Services group also assisted with acceptance testing for the new I-Gaming product.

Work processes and procedures were continually reviewed to identify areas where quality improvements need to be made. The security software for our badge access system was upgraded.

The Security and Support Services group continued to work closely with Delaware's Department of Technology and Information (DTI) to incorporate our Business Continuity and Disaster Recovery Plan with the state of Delaware's plans. A test of the Lottery's Disaster Recovery Plan was exercised at the main office and the Lanham, Maryland site successfully during 2014.

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.
- Maximize the use of video lottery central system enhancements allowing for greater flexibility in the selection of games made available to customers.

VIDEO LOTTERY:

- Sign a new contract with an independent testing laboratory.
- Continue working towards possibly adding additional jurisdictions and additional machine vendors to the multi-state VLT progressive game.
- Continue to install additional Charitable Video Lottery Terminals at Charitable Gaming Organizations that are connected to the Lottery's central system.
- Have the new online electronic licensing system up and operational.

TABLE GAMES:

- Continue to work with the casinos on programs and implementation of new games to help toward increasing the competitive edge with casinos in Pennsylvania and Maryland.
- Continue to review state rules and regulations and the gaming facilities internal controls.
- Continue to meet with gaming manufacturers to review new products being introduced.
- Continue to meet with table gaming staff from each venue to discuss any concerns or issues that may arise.
- Worked with venues on cross promotions with the physical gaming floor and i-gaming. These promotions involve Poker only.

INFORMATION TECHNOLOGY:

- Continue to develop and enhance all internally developed I.T. applications.
- Continue application and hardware support of the Delaware State Lottery.
- Upgrade and replace the backup server.
- Continue to work with Delaware's Department of Technology and Information and other internal and external agencies/vendors to support the Lottery.

FINANCE AND ACCOUNTING:

- Update accounting practices and reconciliation methods to include other new games offered by the Lottery as a result of the Delaware Gaming Competitiveness Act of 2012.
- Continue monitoring and improving internal controls.
- Continue to become more efficient with the use of the new state-wide accounting system.
- Offer new training on all accounting software used by the Lottery's financial staff.

MARKETING AND SALES MANAGEMENT:

- Continue the expansion of our retailer network by adding Keno retailers.
- Monitor ADA compliance initiatives with retailers to ensure lottery products are available to adults who live in or visit Delaware.

- Expand retailer network to new and unique trade styles to accommodate Sports Lottery and Keno sales.
- Continue to develop effective mass media and alternative media advertising programs.
- Continue to effectively use “cooperative services” program by developing new and exciting games and promotional programs.
- Continue to conduct 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.

SECURITY AND SUPPORT SERVICES:

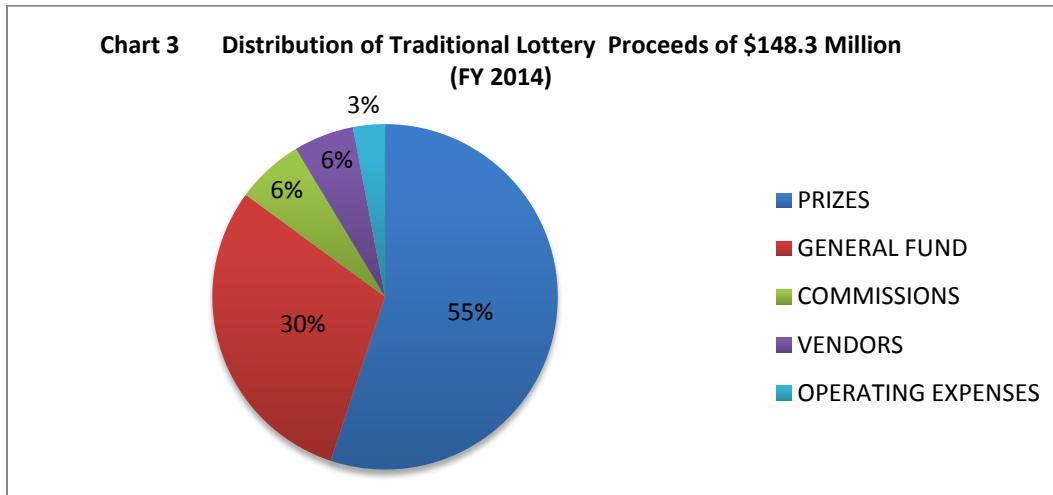
- Continually review security related areas and policies to ensure compliance (physical, information, and data).
- Conduct regular review and mock tests of the Disaster Recovery Plan.
- Conduct User Acceptance Testing for traditional draw games gaming system changes.
- Test the Disaster Recovery site in Lanham, Maryland, on a quarterly basis.
- Conduct review of MUSL rules to ensure compliance.
- Develop and implement Draw related procedures for new drawing games being introduced.
- Assist in the Development of UAT scripts and Acceptance Testing of I-Gaming.
- Conduct User Acceptance Testing for instant ticket system upgrades.
- Continue to review processes to improve efficiency within the group.
- Upgrade Security Camera Surveillance System.
- Upgrade Animation System.

FINANCIAL INFORMATION

The management discussion and analysis section starting on page 29 should also be read for an overview of the financial results.

PROCEEDS DISTRIBUTION:

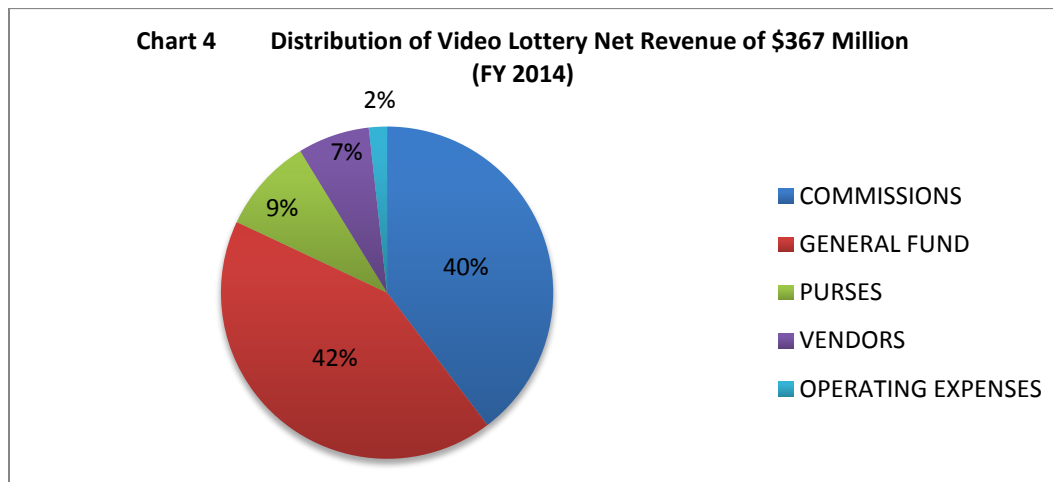
For Fiscal Year 2014, Traditional Proceeds were distributed as shown in the following charts:



Source: Lottery Internal Records

Balances include administrative expenses that have been allocated proportionately to traditional lottery games.

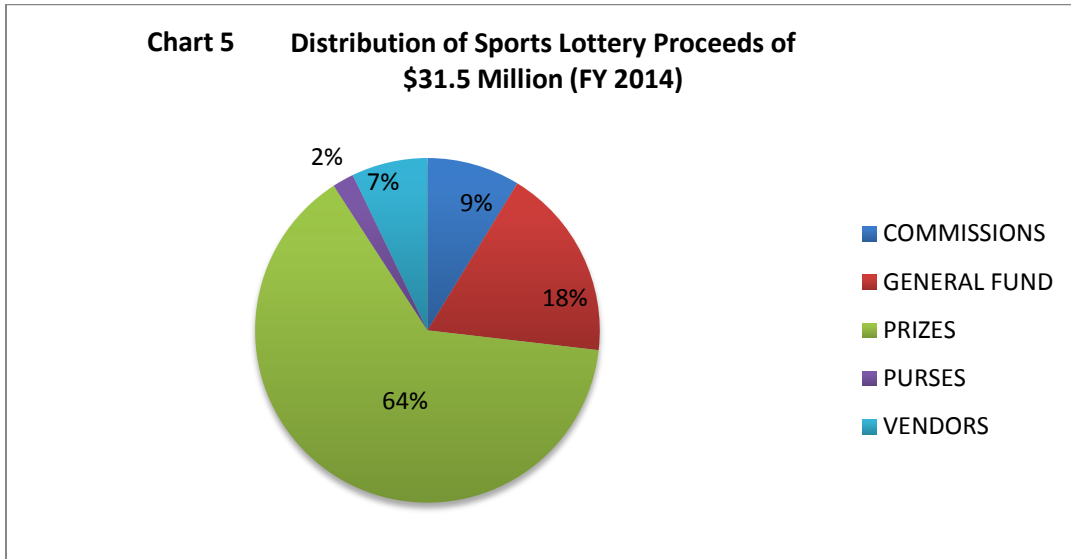
For Fiscal Year 2014, Video Proceeds were distributed as shown in the following charts:



Source: Lottery Internal Records

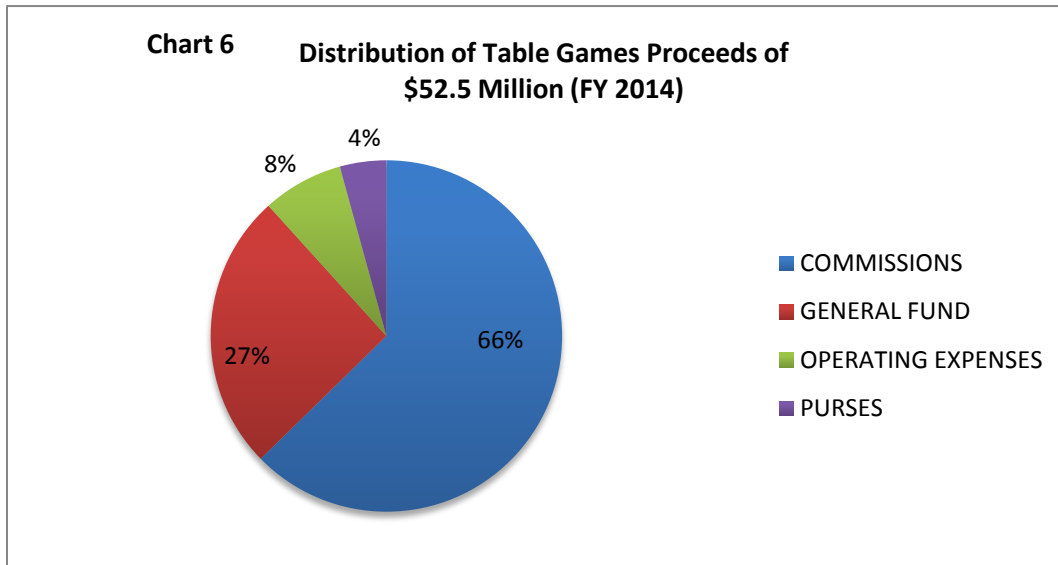
Balances include administrative expenses that have been allocated proportionately to video lottery games.

For Fiscal Year 2014, Sports Lottery proceeds were distributed as shown in the charts below:



Source: Lottery Internal Records

For Fiscal Year 2014, Table Games proceeds were distributed as shown in the charts below:



Source: Lottery Internal Records

The Delaware Lottery is proud of its contribution to the State general Fund which finances state services. The Lottery is the fourth 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

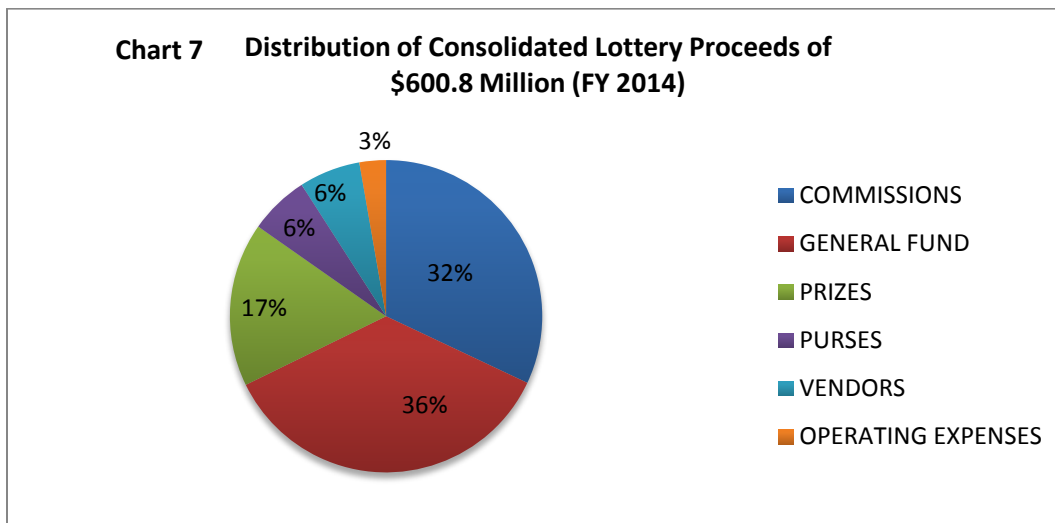
- Public safety
- Judicial and corrections
- Child, youth and family services

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

In addition to the above contribution to the 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 General Fund, the Lottery contributed 42 cents of every sales dollar to the State of Delaware in fiscal 2014.



Source: Lottery Internal Records

Balances include administrative expenses that have been allocated proportionately to video, table games and traditional lottery games.

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 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

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 General Fund. The internal "budget" consolidates certain detailed expense categories to reduce recording time and for better management. It reflects the latest forecast submitted for the upcoming fiscal year prior to the end of the current fiscal year.

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:

The Lottery's long-term liabilities are:

- For payment of annual installments to winners of Lotto annuity jackpots greater than \$150,000. The Lottery has discharged this responsibility by purchasing annuities from private insurance companies. The Lottery does remain liable for future periodic payments of deferred prize obligations (approximately \$0.1 million at June 30, 2014) in the event that the annuity issuers default on their obligations. Please see Notes 1 (f) and 3 of the Notes to Financial Statements under the “Financial Section” of this report.
- Amount owed to the State in the event that the Lottery’s Powerball game is discontinued (\$2.59 million at June 30, 2014). This amount has been reserved by MUSL (Multi-State Lottery) that operates the Powerball, Hot Lotto 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.

CASH MANAGEMENT:

Cash management activities, including investment of excess cash balances are handled by the State Treasurer and incomes earned on these investments accrue to the State General Fund in accordance with State policy.

RISK MANAGEMENT:

The Lottery’s risk management and insurance programs are administered by the State. The State Personnel Office that administers the program is duly compensated by the Lottery for this service.

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, 2013. This was the fifteenth consecutive year that the Lottery has achieved this prestigious award. A copy of the certificate for fiscal year 2013 can be seen on Page 25 of 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 2014 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



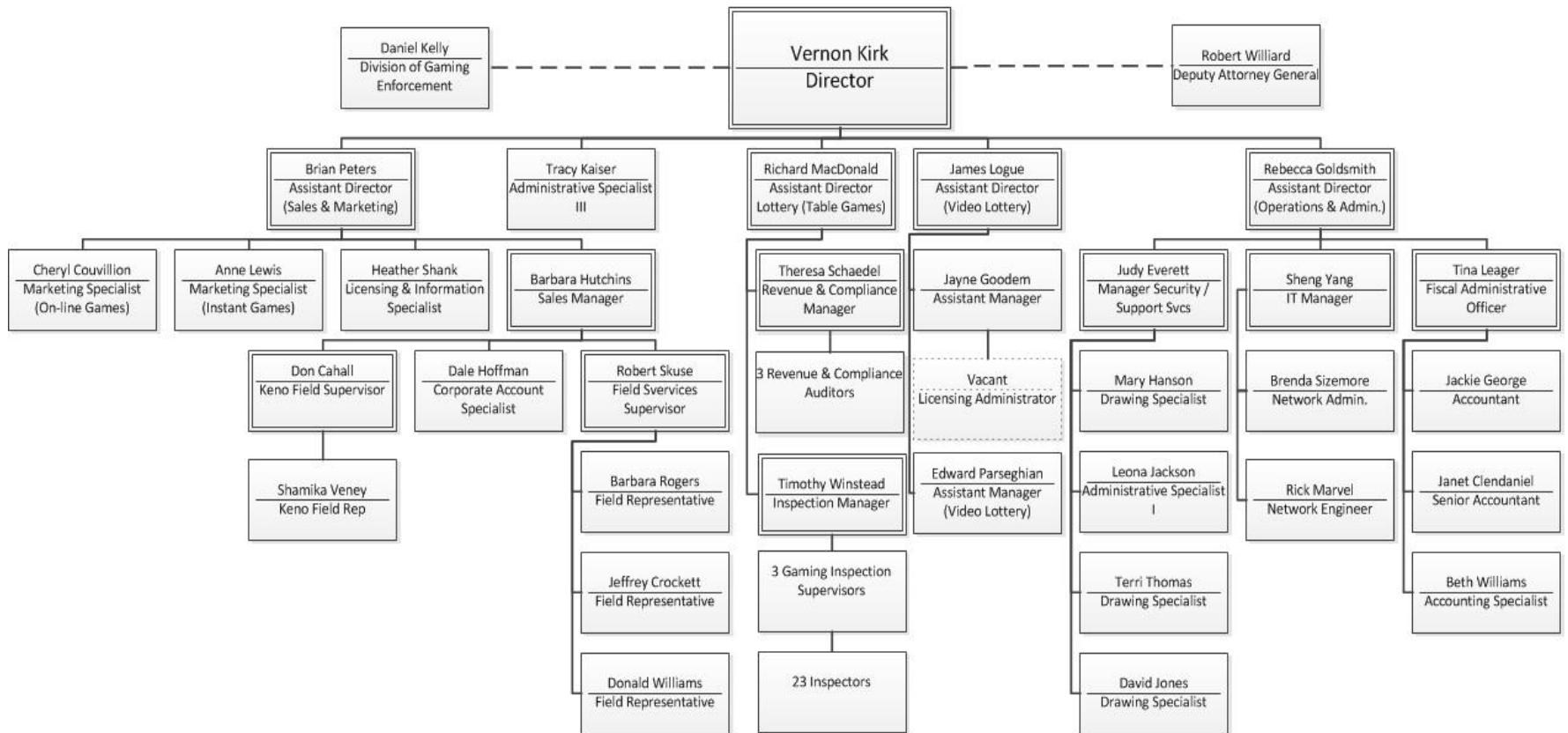
Tina M. Leager
Fiscal Administrative Officer
Delaware State Lottery

DELAWARE STATE LOTTERY
PRINCIPAL OFFICIALS

Governor	Jack Markell
Secretary of Finance	Thomas J. Cook
Director	Vernon A. Kirk
Deputy Attorney General	Robert Willard
Assistant Director of Operations and Administration	Rebecca Goldsmith
Assistant Director of Marketing & Sales	Brian Peters
Assistant Director of Video Lottery	Jim Logue
Assistant Director of Table Games	Richard MacDonald

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, 2013

Executive Director/CEO

FINANCIAL

SECTION



KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

Vernon Kirk, Director of the Delaware State Lottery, and
Tom Cook, Secretary of Finance, State of Delaware:

We have audited the accompanying financial statements of the Delaware State Lottery (the Lottery) an enterprise fund of the State of Delaware, which comprise the statements of net position as of June 30, 2014 and 2013, and the related statements of revenue, expenses, and changes in net position, and cash flows for the years ended, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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 an opinion 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. 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Delaware State Lottery as of June 30, 2014 and 2013, and changes in



its financial position, and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 1 to the financial statements, the financial statements present only the Lottery enterprise fund and do not purport to, and do not, present fairly the financial position of the State of Delaware as of June 30, 2014 and 2013, the changes in its financial position or, where applicable, its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to the matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 29–34 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

Our audit was conducted for the purpose of forming an opinion on the Lottery's basic financial statements. The Introductory and Statistical sections as listed in the table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has 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.

KPMG LLP

KPMG, LLP

Philadelphia, Pennsylvania

October 22, 2014

DELAWARE STATE LOTTERY

Management's Discussion and Analysis

June 30, 2014 and 2013

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, 2014 and 2013, 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 and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position serve as a relative indicator of the change in financial position of the Lottery.

The statement of revenue, expenses, and changes in net position shows the result of the Lottery's total operations and reflects both operating and non-operating 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, 2014 and 2013

Condensed Net Position

Assets	June 30		
	2014	2013	2012
Cash and investments	\$ 3.1	3.5	6.9
Accounts receivable, net of allowance of \$0.8, \$0.7, and \$0.7, respectively	12.4	11.1	10.5
Investments	0.1	0.2	0.5
Due from State of Delaware	2.6	2.2	1.7
Deposit with Multi-State Lottery	2.6	2.4	2.4
Total assets	<u>\$ 20.8</u>	<u>19.4</u>	<u>22.0</u>
Liabilities and Net Position			
Current Liabilities:			
Prizes liability, including \$0.1, \$0.2, and \$0.5, respectively, of prize installment obligation	\$ 4.8	4.8	4.6
Accounts payable and accrued liabilities	7.8	7.1	6.2
Due to the State of Delaware	1.6	1.5	5.6
Total Current Liabilities:	<u>14.2</u>	<u>13.4</u>	<u>16.4</u>
Noncurrent Liabilities:			
Multi-State Lottery reserve	2.6	2.4	2.4
OPEB liability	3.0	2.6	2.2
Total liabilities	<u>19.8</u>	<u>18.4</u>	<u>21.0</u>
Net Unrestricted	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>
Total net position	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>
Total liabilities and net position	<u>\$ 20.8</u>	<u>19.4</u>	<u>22.0</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 six in 2012, seven in 2013, and eight in 2014. Correspondingly, the additional days in 2014 are reflected in the additional accounts receivable and accounts payable and accrued liabilities.

Over the last three years, investments and the related prize installment obligations have been reduced over the years as a result of the maturing of existing annuities and the Lottery's discontinuation of annuities for prize payments.

The Other Post-Employment Benefits (OPEB) liability continued to increase each year because the Lottery is not funding the Annual Required Contribution, but is only paying retiree healthcare on a pay-as-you-go basis.

DELAWARE STATE LOTTERY

Management's Discussion and Analysis

June 30, 2014 and 2013

Revenue

Table 2

Revenue

(In millions)

	Year ended June 30		
	2014	2013	2012
Play 3	\$ 24.8	24.9	25.0
Play 4	19.9	19.2	18.7
Multi Win Lotto	4.2	4.2	4.5
Powerball	26.9	34.2	25.0
Hot Lotto	3.1	3.1	2.6
Mega Millions	12.6	7.6	12.0
Fastplay	—	—	0.1
Delaware Cash 5	0.9	0.9	1.1
Keno	5.2	2.5	—
Instant games	50.7	47.5	45.7
Traditional games revenue	148.3	144.1	134.7
Video lottery, net	363.4	396.8	475.7
I-Gaming	1.4	—	—
Video lottery expired jackpots and credit slips	0.4	0.4	0.3
Casino license fees	3.3	3.0	10.8
Sports lottery	31.5	25.4	17.8
Table games, net	52.5	65.6	75.0
Total revenue	\$ 600.8	635.3	714.3

Table 2 above compares revenue for each lottery game category. Total lottery revenue for fiscal 2014 was \$34.5 million, or 5.4% lower than for 2013 and revenue for fiscal 2013 was \$79 million, or 11.1% lower than for 2012.

There was a \$32 million, or 8.1%, decline in video lottery revenue from 2013 to 2014 and a \$78.9 million, or 16.6%, decline in video lottery revenue from 2012 to 2013. This decline can be attributed to the additional casinos opening near our Maryland border at the end of FY12.

The table games revenue was \$13.1 million lower in fiscal 2014 as compared to 2013. This decline can also be attributed to increased competition with the addition of tables and a poker room in nearby Baltimore in FY14.

Powerball and Mega millions sales are typically driven by the size of the jackpot. Sales for Powerball decreased in 2014 due to limited number of higher jackpots but increased from 2012 to 2013 as higher jackpot levels were attained. Sales for Mega millions increased in 2014 over 2013 due to a long jackpot run twice during 2014.

DELAWARE STATE LOTTERY

Management's Discussion and Analysis

June 30, 2014 and 2013

Instant games sales continue to increase including reporting a record sales week this fiscal year. The “cooperative services” agreement that the Lottery signed with its vendor for instant games is producing positive results. The vendor, in conjunction with the Lottery, continued to offer more attractive products. The Lottery also decided to shorten the life cycle of games offered and increased the introduction of higher price point tickets, as surveys indicated that higher price points with higher prize levels were more attractive to the playing public.

Since the Delaware Legislature passed the Administration's *Delaware Gaming Competitiveness Act of 2012* which allowed for the expansion of Sports Lottery into retail locations, the implementation of Keno, and authorizing Delaware to conduct internet gaming for both traditional and casino styles online wagering, sales from these products have continued to grow. The Lottery expanded the sports retail locations from 30 to 75 retailers, added additional Keno retailers and started video lottery gaming on the internet in November 2013.

Cost of Games

Table 3

Cost of Games

(In millions and as a percentage of sales)

	Year ended June 30					
	2014		2013		2012	
Commission expense	\$ 192.4	32.2%	\$ 213.7	33.6%	\$ 250.6	35.1%
Gaming vendor fees and costs	38.1	6.3	33.1	5.2	37.6	5.3
Prize expense	102.0	17.1	99.3	15.6	85.6	12.0
Total cost of games	\$ 332.5		\$ 346.1		\$ 373.8	

Commission expense includes payments to lottery retailers for selling lottery and sports betting tickets and to the casinos for the operation of video lottery, sports lottery, and table game facilities. There was a \$21.3 million, or 9.9%, decline in commission expense from 2013 to 2014. This was due to lower revenue for video lottery and table games. There was a \$36.9 million, or 14.7%, decline in commission expense from 2012 to 2013.

Gaming vendor fees and costs include costs of the central system used to monitor and collect pertinent data for the online and the video lottery system, costs of the instant games supplier, and costs of leasing video lottery terminals from gaming vendors. Gaming vendor fees increased over last year due to the initial one-time startup costs for operating internet gaming, but still remain relatively unchanged over the last few years.

DELAWARE STATE LOTTERY

Management's Discussion and Analysis

June 30, 2014 and 2013

Prize Expense, Net of Reversions

Table 4

Prize Expense, Net of Reversions

(In millions)

	Year ended June 30		
	2014	2013	2012
Play 3	\$ 11.8	12.0	12.0
Play 4	10.4	10.3	9.3
Multi Win Lotto	2.7	2.5	2.8
Powerball	13.0	16.8	11.9
Hot Lotto	1.5	1.6	0.9
Mega Millions	6.3	3.7	6.1
Delaware Cash 5	0.5	0.5	0.5
Keno	3.2	1.5	—
Sports lottery	20.1	20.0	12.8
Instant games	32.5	30.4	29.3
Total prize expense	\$ <u>102.0</u>	<u>99.3</u>	<u>85.6</u>

Table 4 above compares prize expense for each lottery game category for the past three years. 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. 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.

Prize expense for 2014 compared to 2013 and 2013 compared to 2012 is commensurate with the increases and decreases in traditional lottery sales during the same periods. The increase in prize expense from 2013 to 2014 is due to higher sales on Mega millions, Keno, and Instant Games. Higher sales for these games also contributed to the increase in prize costs during 2013.

DELAWARE STATE LOTTERY

Management's Discussion and Analysis (continued)

June 30, 2014 and 2013

Operating Expenses

Table 5

Operating Expenses

(In millions)

	Year ended June 30		
	2014	2013	2012
Operating expenses	\$ 10.9	11.4	11.4

Operating expenses remained relatively unchanged from 2013 to 2014 and 2012 to 2013.

Nonoperating Expenses

Table 6

Nonoperating Expenses

(In millions)

	Year ended June 30		
	2014	2013	2012
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
Contributions to the State of Delaware	253.4	273.8	325.1
Total nonoperating expenses	\$ 257.4	277.8	329.1

Decreases in cash contributions to the State of Delaware were consistent with the Lottery's revenue decreases.

Subsequent Event

In July 2013, the legislature convened a Lottery and Gaming Study Commission that is responsible for examining the tax competitive marketplace confronting Delaware gaming and all affected parties. The Commission submitted several proposals to the legislature at the end of this fiscal year. The only change approved by legislature was to deduct 75% of the vendor cost before calculating the state share of video net proceeds.

DELAWARE STATE LOTTERY

Basic Statements of Net Position

June 30, 2014 and 2013

Assets	<u>2014</u>	<u>2013</u>
Current assets:		
Cash and investments	\$ 3,119,230	3,498,811
Accounts receivable, net of allowance of \$785,780 and \$733,877, respectively	12,417,913	11,069,870
Investments – restricted for payment of prize liabilities	30,000	108,375
Due from State of Delaware	2,597,487	2,221,882
Total current assets	<u>18,164,630</u>	<u>16,898,938</u>
Noncurrent assets:		
Capital assets, net	—	—
Investments – restricted for payment of prize liabilities	84,038	101,202
Deposit with Multi-State Lottery	2,591,984	2,446,626
Total noncurrent assets	<u>2,676,022</u>	<u>2,547,828</u>
Total assets	<u>\$ 20,840,652</u>	<u>19,446,766</u>
Liabilities and Net Position		
Current liabilities:		
Prizes liability, including \$30,000 and \$108,375, respectively, of prize installment obligations	\$ 4,738,522	4,714,470
Accounts payable and accrued liabilities	7,841,959	7,042,040
Due to the State of Delaware	1,583,877	1,544,941
Total current liabilities	<u>14,164,358</u>	<u>13,301,451</u>
Noncurrent liabilities:		
Multi-State Lottery reserve	2,591,984	2,446,626
Prize installment obligations, noncurrent	84,038	101,202
OPEB liability	3,000,272	2,597,487
Total liabilities	<u>19,840,652</u>	<u>18,446,766</u>
Net position:		
Unrestricted	<u>1,000,000</u>	<u>1,000,000</u>
Total net position	<u>1,000,000</u>	<u>1,000,000</u>
Total liabilities and net position	<u>\$ 20,840,652</u>	<u>19,446,766</u>

See accompanying notes to basic financial statements.

DELAWARE STATE LOTTERY

Basic Statements of Revenue, Expenses, and Changes in Net Position
Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Revenue:		
Video lottery, net	\$ 363,398,167	396,775,063
Video lottery expired jackpots and credit slips	370,613	365,495
Casino license fees	3,261,600	3,000,000
I-Gaming Video	1,374,944	—
Sports lottery	31,511,881	25,422,927
Table games	52,537,492	65,591,850
Draw games	97,686,358	96,657,250
Instant games	50,683,741	47,451,154
Total revenue	<u>600,824,796</u>	<u>635,263,739</u>
Cost of games:		
Video lottery commissions	145,501,490	159,688,216
Prize costs, net of reversions	101,993,821	99,264,072
Gaming vendor fees and costs	38,111,127	33,147,920
Draw and instant games commissions	9,395,691	8,961,607
Sports lottery commissions	2,738,572	1,688,851
Table games commissions	34,727,282	43,356,213
Total cost of games	<u>332,467,983</u>	<u>346,106,879</u>
Gross margin	<u>268,356,813</u>	<u>289,156,860</u>
Operating expenses:		
Advertising and promotions	3,007,072	3,202,516
Payroll and related benefits	6,225,777	6,292,138
Other general and administrative	1,687,995	1,866,317
Total operating expenses	<u>10,920,844</u>	<u>11,360,971</u>
Operating income	257,435,969	277,795,889
Nonoperating expenses:		
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	253,435,969	273,795,889
Change in net position	—	—
Net position at beginning of year	<u>1,000,000</u>	<u>1,000,000</u>
Net position at end of year	<u>\$ 1,000,000</u>	<u>1,000,000</u>

See accompanying notes to basic financial statements.

DELAWARE STATE LOTTERY

Basic Statements of Cash Flows

Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Receipts from customers	\$ 599,424,850	634,702,043
Payments to vendors for goods and services	(42,481,224)	(37,797,652)
Payments to employees for services	(5,945,975)	(5,723,100)
Payments for prizes	(101,986,933)	(99,020,587)
Payments for commissions	(192,088,805)	(213,494,820)
Net cash provided by operating activities	<u>256,921,913</u>	<u>278,665,884</u>
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	(253,397,033)	(278,389,012)
Net cash used in noncapital financing activities	<u>(257,397,033)</u>	<u>(282,389,012)</u>
Cash flows from investing activity:		
Proceeds from maturity of investments	95,539	270,739
Net cash provided by investing activity	<u>95,539</u>	<u>270,739</u>
Net decrease cash and investments	(379,581)	(3,452,389)
Cash and investments at beginning of year	3,498,811	6,951,200
Cash and investments at end of year	<u>\$ 3,119,230</u>	<u>3,498,811</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 257,435,969	277,795,889
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,348,043)	(561,696)
Deposit with Multi-State Lottery	(145,358)	(9,329)
Prizes liability	6,889	243,485
Accounts payable and accrued liabilities	972,456	1,197,535
Net cash provided by operating activities	<u>\$ 256,921,913</u>	<u>278,665,884</u>

See accompanying notes to basic financial statements.

DELAWARE STATE LOTTERY

Notes to Basic Financial Statements

June 30, 2014 and 2013

(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 at least 30% of total revenue will be paid to the General Fund of the State of Delaware (the State). 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) *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.

DELAWARE STATE LOTTERY

Notes to Basic Financial Statements

June 30, 2014 and 2013

(e) 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 (online and instant games) to the general public.

	<u>2014</u>	<u>2013</u>
Receivables:		
Accounts	\$ 13,203,693	11,803,747
Total receivables	13,203,693	11,803,747
Allowance for doubtful accounts	(785,780)	(733,877)
Total receivables, net	<u>\$ 12,417,913</u>	<u>11,069,870</u>
Amounts not scheduled for collection during the subsequent year	\$ —	—

(f) 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 will mature as of February 16, 2018.

(g) 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.

(h) Revenue Recognition

Revenue from online games 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

DELAWARE STATE LOTTERY

Notes to Basic Financial Statements

June 30, 2014 and 2013

Revenue from video lottery and table game sales is recognized, net of prizes paid, at the time the public plays the game. Revenue from sports lottery is also recognized at the time the public plays the game.

All revenue that the Lottery reports is considered operating revenue.

(i) ***Prize Obligations***

Prize obligations for the draw games are determined and recognized after each drawing is held. For the numbers 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, 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.

Prize obligations for the sports lottery are determined and recognized after the completion of National Football League games. All wagers must be parlays consisting of three or more individual games.

(j) ***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, 2014. Employees earn from 1.25 to 1.75 days 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 1.25 days of sick leave per month. The Lottery's obligation for sick leave credit is a maximum of 45 workdays. As of June 30, 2014 and 2013, the Lottery had liabilities of \$258,679 and \$224,933 for accrued vacation and \$240,350 and \$212,000 for accrued sick leave, respectively.

(k) ***Operating and Non-Operating 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, contracted services, supplies, and depreciation. All expenses not meeting this definition are reported as non-operating expenses.

DELAWARE STATE LOTTERY

Notes to Basic Financial Statements

June 30, 2014 and 2013

(1) *Pension and Postemployment Benefits*

The Lottery contributes to the State Employees' Pension Plan (the State Plan) established by the State to provide benefits to State employees. The State Plan is a cost-sharing multiple employer public employee retirement system, and the Lottery's only obligation to the plan is its required annual contributions.

The Lottery accounts for and reports the value of its future obligation to pay other post-employment benefits (OPEB), which is principally healthcare to employees as the related benefits are earned. The resulting liability has been recorded on the statement of net position as OPEB liability and the year-over-year change in the obligation has been expensed in the statement of revenues, expenses, and changes in net position in the current fiscal year.

(2) **Cash and Investments**

Cash and investments reported reflect three types of account balances: the Lottery deposit account, the Lottery prize account, 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 account. 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.

Cash balances consisted of the following:

	June 30	
	2014	2013
On hand and in bank	\$ 788,676	1,742,987
Pooled cash and investments	2,330,554	1,755,824
Total cash balances	<u>\$ 3,119,230</u>	<u>3,498,811</u>

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

DELAWARE STATE LOTTERY

Notes to Basic Financial Statements

June 30, 2014 and 2013

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.

At June 30, 2014 and 2013, 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, 2014 and 2013, the total bank balance of cash in all bank accounts was \$788,676 and \$1,772,120, respectively.

(3) Investments

Until April 1998, annuity contracts were purchased from insurance companies to fund prizes of \$150,000 or more, payable on an installment basis. All investments reported on the statement of net position represent such annuities, and are carried on the statement of net position at amortized cost. The Lottery intends to hold the investments until maturity. The Lottery remains liable for future periodic payments of deferred prize obligations (approximately \$0.1 million as of June 30, 2014) in the event that annuity issuers default on their obligations. Lottery investments as of June 30, 2014 and 2013 are not subject to custodial credit risk since their existence is not evidenced by securities that exist in physical or book entry form.

(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.

DELAWARE STATE LOTTERY

Notes to Basic Financial Statements

June 30, 2014 and 2013

(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. As of June 30, 2014, the insurance companies with which the Lottery's investments in annuity contracts to pay future prize obligations are held were rated by A.M. Best Company and concentrated as follows:

Insurance company	Total annuity contract values	Concentration	A.M. Best rating
New York Life Insurance Company	\$ 114,038	100.00	aaa – (superior)
Total investments in annuity contracts	\$ 114,038	100.00%	

(4) Capital Assets

	Beginning balance, July 1, 2013	Increase	Decrease	Ending balance, June 30, 2014
Capital assets being depreciated:				
Computer equipment and software	\$ 1,394,887	—	—	1,394,887
Total capital assets being depreciated	1,394,887	—	—	1,394,887
Less accumulated depreciation	1,394,887	—	—	1,394,887
Total capital assets being depreciated, net	\$ —	—	—	—

	Beginning balance, July 1, 2012	Increase	Decrease	Ending balance, June 30, 2013
Capital assets being depreciated:				
Computer equipment and software	\$ 1,394,887	—	—	1,394,887
Total capital assets being depreciated	1,394,887	—	—	1,394,887
Less accumulated depreciation	1,394,887	—	—	1,394,887
Total capital assets being depreciated, net	\$ —	—	—	—

DELAWARE STATE LOTTERY

Notes to Basic Financial Statements

June 30, 2014 and 2013

During the years ended June 30, 2014 and 2013, the Lottery had no purchases or disposals of capital assets. Depreciation expense for the years ended June 30, 2014 and 2013 was \$0 and \$0, respectively.

(5) Prize Obligation

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, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Prize obligations, beginning of year	\$ 4,815,672	4,572,187
Prize payments	(101,986,933)	(99,020,587)
Prize costs, net of reversions	<u>101,993,821</u>	<u>99,264,072</u>
Prize obligations, end of year	<u>\$ 4,822,560</u>	<u>4,815,672</u>

The Lottery pays the winners of certain jackpots in annual installments over periods that vary generally from 14 to 20 years. The future prize installment obligations payable as of June 30, 2014, during the next four years, are as follows:

2015	\$ 30,000
2016	30,000
2017	30,000
2018	<u>30,000</u>
Total payments for unpaid prize installment obligations	120,000
Less imputed interest	<u>(5,962)</u>
Present value of prize installment obligations	<u>\$ 114,038</u>

(6) Participation in the Multi-State Lottery

The Lottery is a member of the Multi-State Lottery (the MUSL), which operates online 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 operates the Powerball game, the Hot Lotto game since fiscal year 2008 and the Mega millions game since 2010. 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 multi-jurisdictional lottery game known as the "Mega millions Game," to be conducted by the MUSL member lotteries.

DELAWARE STATE LOTTERY

Notes to Basic Financial Statements

June 30, 2014 and 2013

The amount the Lottery had on deposit with the MUSL, as of June 30, 2014 and 2013, equaled \$2,591,984 and \$2,446,626, 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 upon separation from the MUSL if the MUSL is not required to use a portion of the Lottery's reserves held by the MUSL.

Complete separate financial statements for the MUSL may be obtained by sending a written request to the Lottery's Administrative Office.

(7) Delaware Standardbred 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 (the Breeder's Program) for the purpose of promoting the Delaware harness racing industry. Under this amendment, the Lottery was initially required to withhold \$2,000,000 of funds annually (\$1,000,000 from the General Fund of the State and \$1,000,000 from the Purse Increase Funds of the State Department of Agriculture) and remit these fees to the Breeder's Program. Under an amendment signed in April 2004, the Lottery is required to withhold \$3,000,000 of funds annually (\$1,500,000 from the General Fund of the State and \$1,500,000 from the Purse Increase Funds of the State Department of Agriculture) and remit these fees to the 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. Under this amendment, effective July 1, 2006, the Lottery is required to withhold \$1,000,000 of funds annually (\$500,000 from the General Fund of the State and \$500,000 from the Purse Increase Funds of the State Department of Agriculture) and remit these funds to the Delaware Certified Thoroughbred Program.

During fiscal 2008, the General Assembly approved House Bill #514, which reduces the State's annual contribution to the Delaware Standardbred Breeder's Program and the Certified Thoroughbred Program by \$750,000 and \$250,000, respectively. The State's video lottery agents will pick up the reduction of the State's contribution. The amounts paid by the agents is recorded as a reduction to video lottery commissions and/or accounts payable and accrued liabilities, and is then transferred by the Lottery to the respective programs.

DELAWARE STATE LOTTERY

Notes to Basic Financial Statements

June 30, 2014 and 2013

(8) Contributions to the State of Delaware

As required, under the Legislation, net assets 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, 2014 and 2013, the Lottery made the following contributions to the State and, as of June 30, 2014 and 2013, had the following liabilities due to the State for excess earnings:

	June 30	
	2014	2013
Amounts transferred during the fiscal year:		
General Fund	\$ 214,550,022	235,300,000
Department of Health and Social Services	1,735,591	1,931,213
Department of Agriculture	37,111,420	40,598,785
	<u>253,397,033</u>	<u>277,829,998</u>
Amounts accrued, beginning of year	(1,544,941)	(5,579,050)
Amounts due to the State of Delaware, end of year:		
General Fund	601,418	590,372
Department of Health and Social Services	158,529	169,652
Department of Agriculture	823,930	784,917
	<u>1,583,877</u>	<u>1,544,941</u>
Amounts accrued, end of year		
Total transfers to the State of Delaware	<u>\$ 253,435,969</u>	<u>273,795,889</u>

DELAWARE STATE LOTTERY

Notes to Basic Financial Statements

June 30, 2014 and 2013

(9) Revenue and Expenses by Game

The following revenue was recognized:

	Year ended June 30	
	2014	2013
Draw games:		
Play 3 Day	\$ 9,475,858	9,474,835
Play 3 Night	15,344,463	15,451,429
Play 4 Day	7,277,690	6,975,022
Play 4 Night	12,613,418	12,230,351
Multi Win Lotto	4,237,034	4,249,607
Powerball	26,930,554	34,174,174
Hot Lotto	3,057,528	3,128,775
Mega Millions	12,643,700	7,605,629
Delaware Cash 5	861,683	895,666
Keno	5,244,430	2,471,762
Instant games	50,683,741	47,451,154
	<u>148,370,099</u>	<u>144,108,404</u>
Video lottery, net	363,398,167	396,775,063
I-Gaming Video, net	1,374,944	—
Video lottery expired jackpots and credit slips	370,613	365,495
Casino license fees	3,261,600	3,000,000
Sports lottery	31,511,881	25,422,927
Table games	52,537,492	65,591,850
	<u>\$ 600,824,796</u>	<u>635,263,739</u>

DELAWARE STATE LOTTERY
Notes to Basic Financial Statements
June 30, 2014 and 2013

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

	<u>Draw Games</u>	<u>Video lottery net</u>	<u>Igaming video, net</u>	<u>Instant</u>	<u>Sports lottery</u>	<u>Table games, net</u>	<u>Total</u>
Year ended June 30, 2014:							
Revenue	\$ 97,686,358	363,398,167	1,374,944	50,683,741	31,511,881	52,537,492	597,192,583
Other income	—	3,632,213	—	—	—	—	3,632,213
Prize costs, net of reversions	<u>49,466,431</u>	<u>—</u>	<u>12,298</u>	<u>32,463,296</u>	<u>20,051,796</u>	<u>—</u>	<u>101,993,821</u>
	48,219,927	367,030,380	1,362,646	18,220,445	11,460,085	52,537,492	498,830,975
Commissions expense	<u>6,411,750</u>	<u>145,501,490</u>	<u>—</u>	<u>2,983,941</u>	<u>2,738,572</u>	<u>34,727,282</u>	<u>192,363,035</u>
Contribution margin per game	<u>\$ 41,808,177</u>	<u>221,528,890</u>	<u>1,362,646</u>	<u>15,236,504</u>	<u>8,721,513</u>	<u>17,810,210</u>	<u>306,467,940</u>
Game vendor fees							<u>38,111,127</u>
Gross profit							<u>268,356,813</u>
	<u>Draw Games</u>	<u>Video lottery, net</u>	<u>Instant</u>	<u>Sports lottery</u>	<u>Table games</u>	<u>Total</u>	
Year ended June 30, 2013:							
Revenue	\$ 96,657,250	396,775,063	47,451,154	25,422,927	65,591,850	631,898,244	
Other income	—	3,365,495	—	—	—	3,365,495	
Prize costs, net of reversions	<u>48,890,072</u>	<u>—</u>	<u>30,373,383</u>	<u>20,000,617</u>	<u>—</u>	<u>99,264,072</u>	
	47,767,178	400,140,558	17,077,771	5,422,310	65,591,850	535,999,667	
Commissions expense	<u>6,176,036</u>	<u>159,688,216</u>	<u>2,785,571</u>	<u>1,688,851</u>	<u>43,356,213</u>	<u>213,694,887</u>	
Contribution margin per game	<u>\$ 41,591,142</u>	<u>240,452,342</u>	<u>14,292,200</u>	<u>3,733,459</u>	<u>22,235,637</u>	<u>322,304,780</u>	
Game vendor fees							<u>33,147,920</u>
Gross profit							<u>\$ 289,156,860</u>

(10) Payroll-Related and Other Benefits

All Lottery personnel are employees of the State and are covered by pension, health insurance, and other employee benefit programs administered by agencies of the State. During 2014 and 2013, the Lottery incurred \$6,225,777 and \$6,292,138, 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.

DELAWARE STATE LOTTERY

Notes to Basic Financial Statements

June 30, 2014 and 2013

(11) Retirement and Other Postemployment Benefits

(a) *Retirement*

The Lottery contributes to the State Employees' Pension Plan (the State Plan) established by the State to provide benefits for state employees. The State Plan is a cost-sharing multiple employer public employee retirement system, since a separate valuation is not performed for the Lottery, and the Lottery's only obligation to the plan is its required annual contributions. The State Plan is considered part of the State's financial reporting entity, and is not considered as part of the Lottery's reporting entity. The State Plan prepares separate financial statements, which can be obtained by writing to the State Board of Pension Trustees and Office of Pensions, McArde Building, Suite #1, 860 Silver Lake Boulevard, Dover, Delaware 19904-2402.

The State Plan consists of several plans, which are managed by the State. The various plans have different vesting periods ranging from 5 to 20 years, various eligibility requirements, and various benefits that are provided. The Lottery's required contributions, which equaled actual contributions made for the years ended June 30, 2014, 2013, and 2012 were \$498,003, \$474,899, and \$430,199, respectively.

The Lottery's accrued pension costs for the years ended June 30, 2014 and 2013 equaled \$27,048 and \$46,640, respectively, and are included within amounts reported as accounts payable and accrued liabilities on the balance sheets.

(b) *Other Postemployment Benefits*

All full-time Lottery employees are covered under the State of Delaware Other Post-Employment Benefits Fund Trust (the OPEB Trust), which was established pursuant to Section 115 of the Internal Revenue Code and administered by the Delaware Public Employees' Retirement System. No stand-alone financial report is issued for the OPEB Trust, but the Trust is included in the statewide Comprehensive Annual Financial Report, which will be available from the Division of Accounting.

The OPEB Trust is a single-employer defined-benefit plan and provides retirement medical coverage to 19,277 pensioners and their eligible dependents through the same healthcare plans that are available to active employees. Retirees' contributions depend on date of hire and years of service and range from 0% to 100% of the cost. There are currently 33,034 active eligible plan members. The Lottery has 63 active eligible plan members, which is the basis on which plan costs are allocated.

By State statute Title 29 of the Delaware Code c.52, contribution requirements of plan members and the government are established and may be amended by the State Legislature. The contribution rates for the employer and retiree are established annually by the budgeting process of the State of Delaware, but are not actuarially determined.

The State's annual OPEB cost is calculated based on the actuarially determined annual required contribution (ARC) of the employer. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize the

DELAWARE STATE LOTTERY

Notes to Basic Financial Statements

June 30, 2014 and 2013

unfunded actuarial liabilities over a period of 30 years. Amounts “required” but not actually set aside to pay for these benefits are accumulated as part of the net OPEB obligation. The following tables show the components of the annual OPEB cost for the year, the amount actually contributed to the plan, and the net OPEB obligation, as well as the amounts allocated to the Lottery:

	State total	Lottery allocation
	(In millions)	(In thousands)
Net OPEB obligation as of June 30, 2013	\$ 1,777.4	2,597.5
Annual required contribution	406.7	775.6
Interest on net OPEB Obligation	75.9	144.7
Adjustment to required contribution	(68.8)	(131.2)
Net OPEB obligation before contributions	2,191.2	3,386.6
Employer contributions	202.6	386.4
Net OPEB obligation as of June 30, 2014	\$ 1,988.6	3,000.2

	State total	Lottery allocation
	(In millions)	(In thousands)
Net OPEB obligation as of June 30, 2012	\$ 1,581.4	2,221.9
Annual required contribution	397.8	762.3
Interest on net OPEB Obligation	67.5	129.4
Adjustment to required contribution	(61.3)	(117.5)
Net OPEB obligation before contributions	1,985.4	2,996.1
Employer contributions	208.0	398.6
Net OPEB obligation as of June 30, 2013	\$ 1,777.4	2,597.5

The Lottery’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation are as follows:

Fiscal year ended	Annual OPEB cost	Percentage of annual OPEB cost contributed	Net OPEB obligation
06/30/2012	\$ 895,200	37.6%	\$ 2,221,882
06/30/2013	774,200	51.4	2,597,487
06/30/2014	789,100	48.9	3,000,272

(12) 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,

DELAWARE STATE LOTTERY

Notes to Basic Financial Statements

June 30, 2014 and 2013

employee healthcare, automobile, and a portion of property and casualty claims are insured internally by the State.

(13) 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 vendor contracts, the Lottery is committed to the vendors.

The Lottery is committed to 5.371% of online sales to its central system provider through February 2015 and 5.6% of instant sales through January 2015. For video lottery, the Lottery is committed to 1% to the central system provider through February 2015 and a range of 5.5% to 7.0% to the video lottery terminal providers through October 28, 2018. For video lottery terminals classified as electronic table games, the Lottery is committed to 10% to Bally/Shufflemaster through October 4, 2015 and 11% to Spielo through December 15, 2015, for roulette.

***STATISTICAL
SECTION***

STATISTICAL SECTION

TABLE OF CONTENTS

Player Demographics

Please see Exhibits I to IV that shows player demographics from our most recent survey in 2009.

Employee & Retailer Demographics

Please see Exhibits V & VI that show numbers of Lottery Employees and Retailers.

Financial Trend Data

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

Delaware Demographics and Economic Information

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

Revenue Capacity Data and Operation Information

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

Lottery Historical Data

Please see Exhibit XVII for Delaware Lottery historical data since inception.

U.S. Lottery Statistics

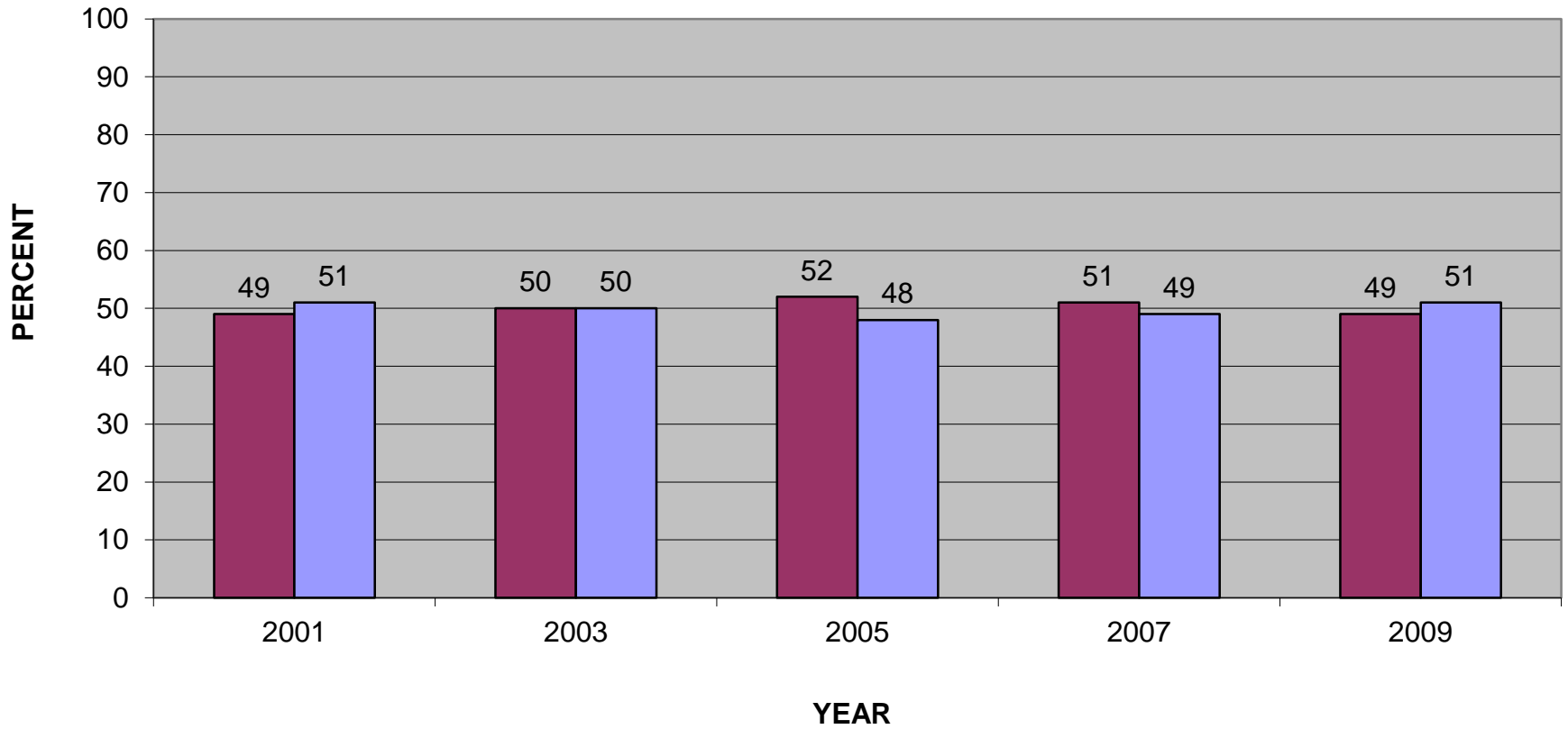
Please see Exhibits XVIII to XX that shows statistics on the U.S. Lotteries

Debt Capacity Data

The Delaware State Lottery has no Legislative debt limits.

EXHIBIT I

GENDER PROFILE OF DELAWARE LOTTERY PLAYERS

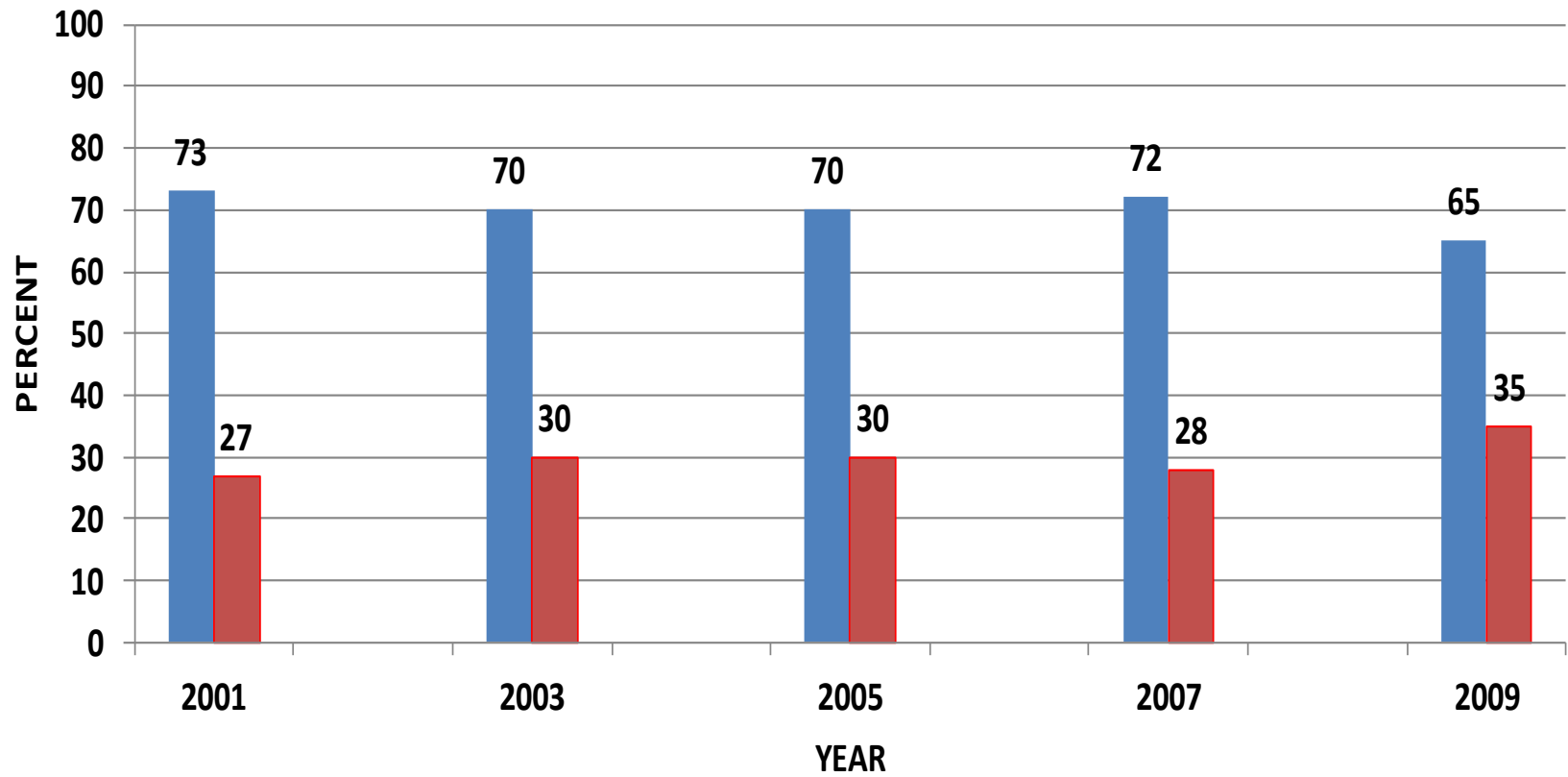


Source: Bi-annual DE Lottery Resident Survey
Due to budget constraints, no survey was conducted in 2011 or 2013.



EXHIBIT II

EDUCATION PROFILE OF DELAWARE LOTTERY PLAYERS

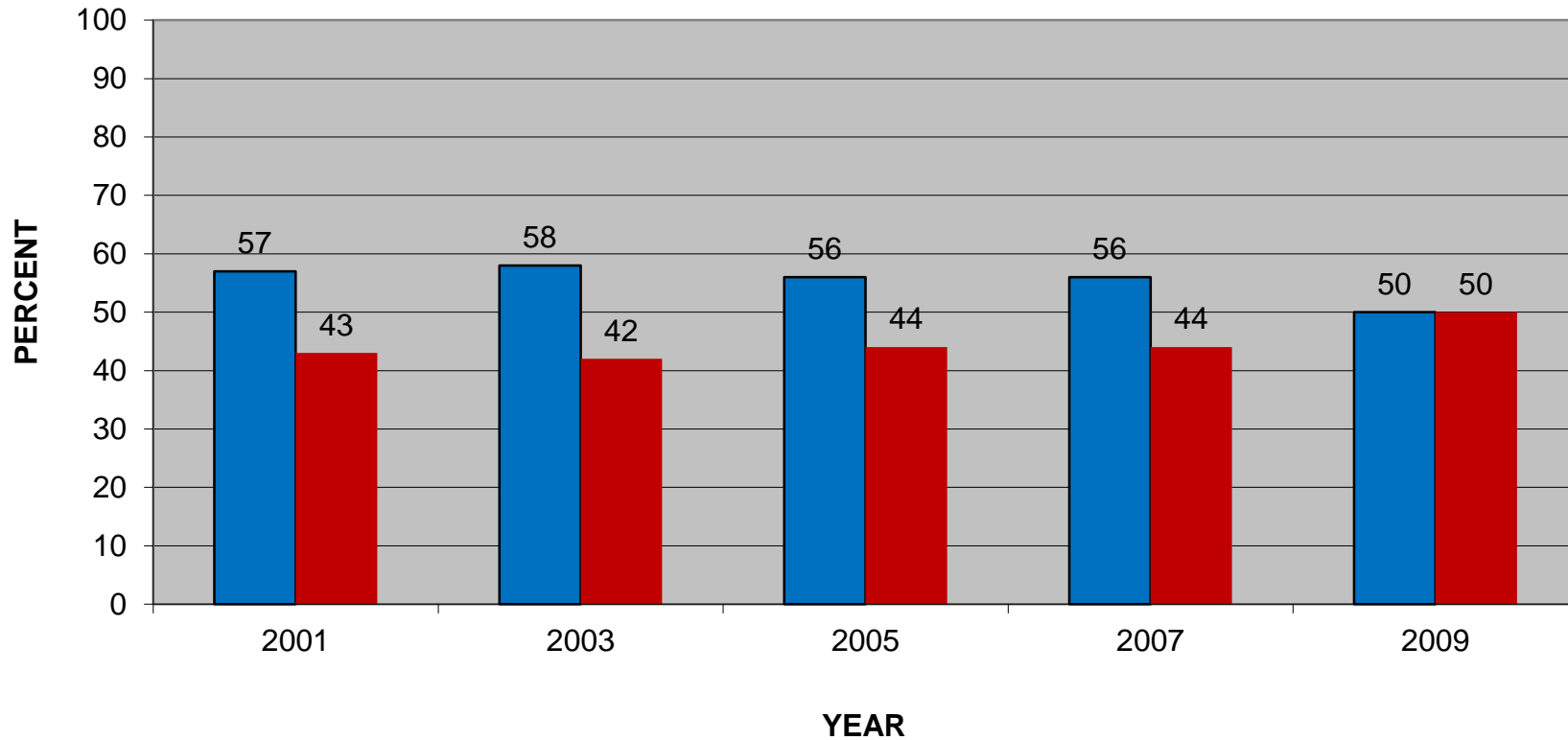


Source: Bi-annual DE Lottery Resident Survey
Due to budget constraints, no survey was conducted in 2011 or 2013.

■ <4 YEAR COLLEGE

■ 4 YEAR COLLEGE OR HIGHER

AGE PROFILE OF DELAWARE LOTTERY PLAYERS

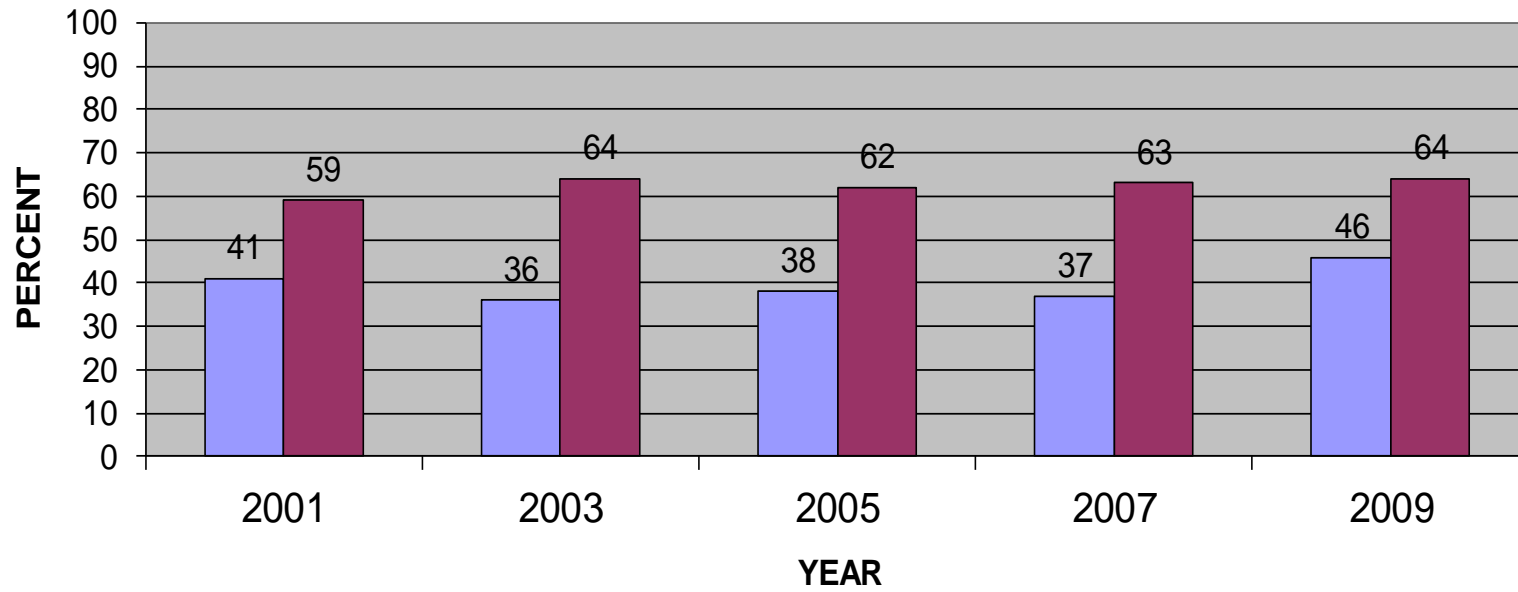


Source: Bi-annual DE Lottery Resident Survey
 Due to budget constraints, no survey was conducted in 2011 or 2013.



EXHIBIT IV

INCOME PROFILE OF DELAWARE LOTTERY PLAYERS



Source: Bi-annual DE Lottery Resident Survey
Due to budget constraints, no survey was
conducted in 2011 or 2013.

■ \$40K OR UNDER ■ OVER \$40K

EXHIBIT V

NUMBER OF FULL-TIME EQUIVALENT EMPLOYEES

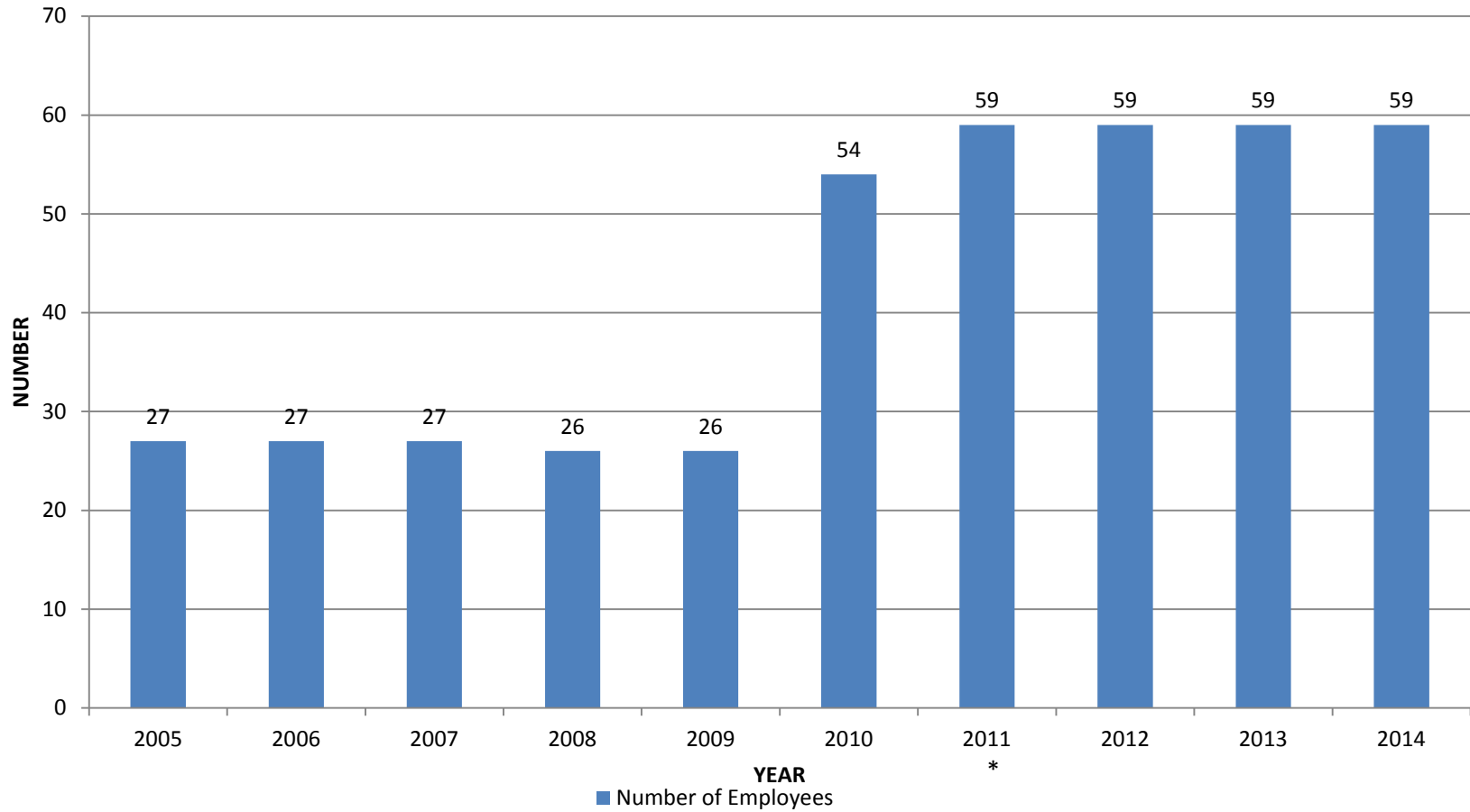
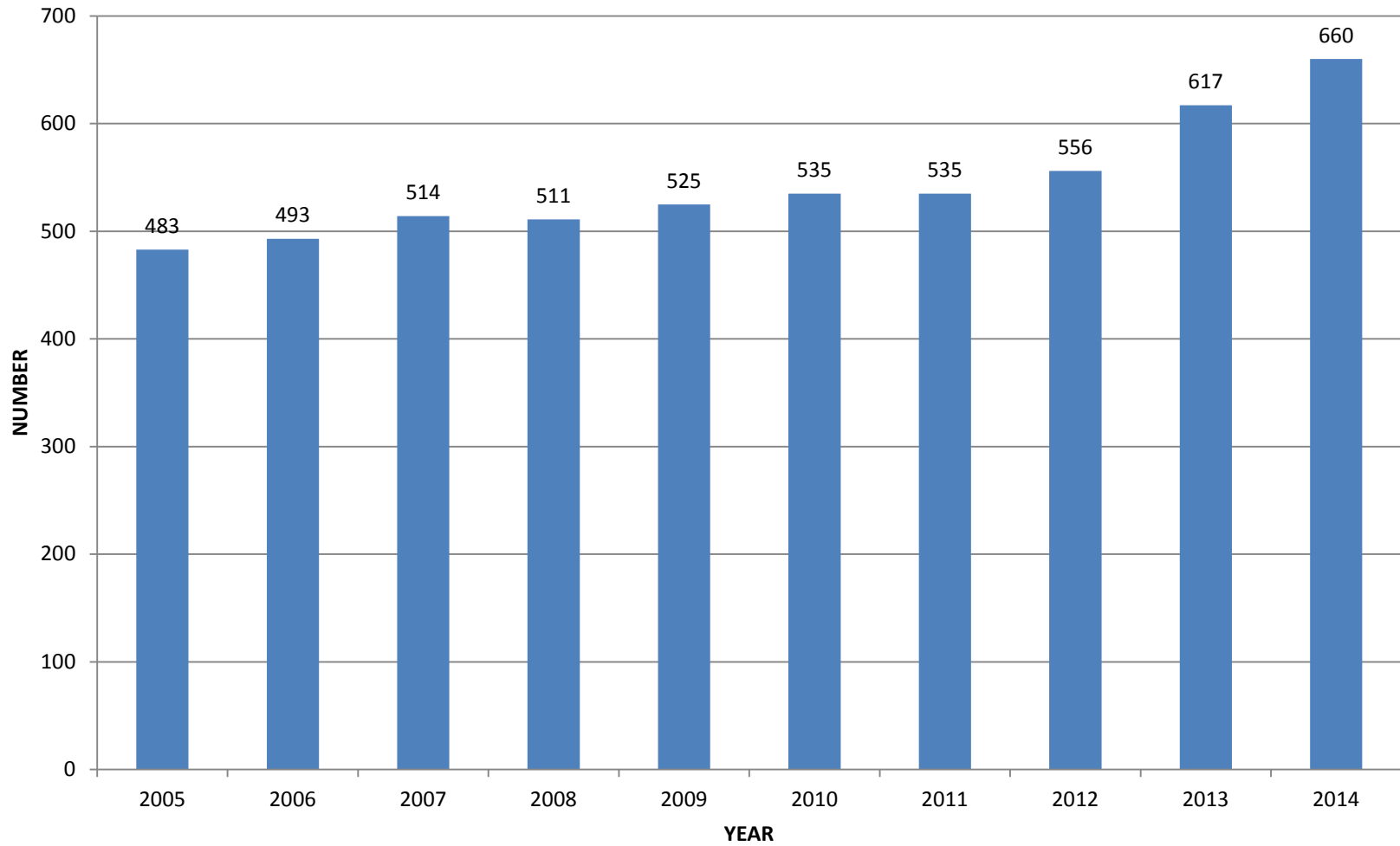


EXHIBIT VI

NUMBER OF RETAILERS/AGENTS



Source: Lottery Internal Records

■ NUMBER

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

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Revenue - Video Lottery, net	\$575,234,109	\$603,501,083	\$636,863,293	\$617,346,616	\$581,137,252	\$552,895,090	\$517,490,815	\$486,807,041	\$400,140,558	\$367,030,380
Revenue - I-Gaming - Video										\$1,374,944
Revenue - Traditional Lottery	114,057,093	124,491,865	118,263,630	124,913,848	123,170,990	122,943,197	123,939,356	134,685,576	144,108,404	148,370,099
Revenue - Sports Lottery						10,815,721	12,910,308	17,846,827	25,422,927	31,511,881
Revenue - Table Games						2,998,441	74,165,548	74,963,837	65,591,850	52,537,492
Total revenue	689,291,202	727,992,948	755,126,923	742,260,464	704,308,242	689,652,449	728,506,027	714,303,281	635,263,739	600,824,796
Total cost of games	380,871,971	403,347,125	417,566,696	412,006,967	381,351,243	343,862,671	373,555,714	373,878,198	346,106,879	332,467,983
Gross profit	308,419,231	324,645,823	337,560,227	330,253,497	322,956,999	345,789,778	354,950,313	340,425,083	289,156,860	268,356,813
Total operating expenses	7,190,898	5,650,477	6,544,008	6,970,323	6,599,557	9,586,801	11,054,570	11,363,136	11,360,971	10,920,844
Operating income	301,228,333	318,995,346	331,016,219	323,283,174	316,357,442	336,202,977	343,895,743	329,061,947	277,795,889	257,435,969
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	0	0	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	297,921,666	315,985,699	326,959,769	320,088,132	312,083,174	331,609,108	339,895,743	325,061,947	273,795,889	253,435,969
Change in net assets	306,667	9,647	56,450	(804,958)	211,089	593,869	0	0	0	0
Net assets at beginning of year	627,236	933,903	943,550	1,000,000	195,042	406,131	1,000,000	1,000,000	1,000,000	1,000,000
Net assets at end of year	933,903	943,550	1,000,000	195,042	406,131	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Invested In Capital Assets	199,192	68,830	6,781	5,274	3,767	2,260	753	0	0	0
Unrestricted	734,711	874,720	993,219	189,768	402,364	997,740	999,247	1,000,000	1,000,000	1,000,000
Total Net Assets	\$933,903	\$943,550	\$1,000,000	\$195,042	\$406,131	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000

EXHIBIT VIII

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

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Population										
State	831	845	859	872	884	892	900	908	917	926
Percentage Change	1.6%	1.7%	1.7%	1.5%	1.4%	0.9%	0.9%	0.9%	1.0%	0.9%
National	292,805	295,517	298,380	301,231	304,094	306,772	309,326	311,583	313,874	316,129
Percentage Change	0.9%	0.9%	1.0%	1.0%	1.0%	0.9%	0.8%	0.7%	0.7%	0.7%
Total personal income										
State (in millions)	30,880	32,397	34,608	35,698	36,590	36,423	36,860	38,768	40,379	41,487
Percentage Change	6.5%	4.9%	6.8%	3.2%	2.5%	-0.5%	1.2%	5.2%	4.2%	2.7%
National (in billions)	10,043	10,606	11,376	11,990	12,429	12,080	12,418	13,190	13,873	14,151
Percentage Change	5.9%	5.6%	7.3%	5.4%	3.7%	-2.8%	2.8%	6.2%	5.2%	2.0%
Per capita personal income										
State (in dollars)	37,169	38,333	40,276	40,950	41,398	40,846	40,969	42,696	44,031	44,815
Percentage Change	4.8%	3.1%	5.1%	1.7%	1.1%	-1.3%	0.3%	4.2%	3.1%	1.8%
National (in dollars)	34,300	35,888	38,127	39,804	40,873	39,379	40,144	42,332	44,200	44,765
Percentage Change	5.0%	4.6%	6.2%	4.4%	2.7%	-3.7%	1.9%	5.5%	4.4%	1.3%
Resident civilian labor force and employment										
Civilian labor force	424,913	434,389	440,125	442,841	445,127	439,322	436,052	437,956	441,127	443,020
Employed	408,266	417,196	424,618	427,265	423,448	404,570	401,214	405,452	409,796	413,260
Unemployed	16,647	17,193	15,507	15,576	21,679	34,752	34,838	32,504	31,331	29,760
Unemployment rate	3.9%	4.0%	3.5%	3.5%	4.9%	7.9%	8.0%	7.4%	7.1%	6.7%

Sources:

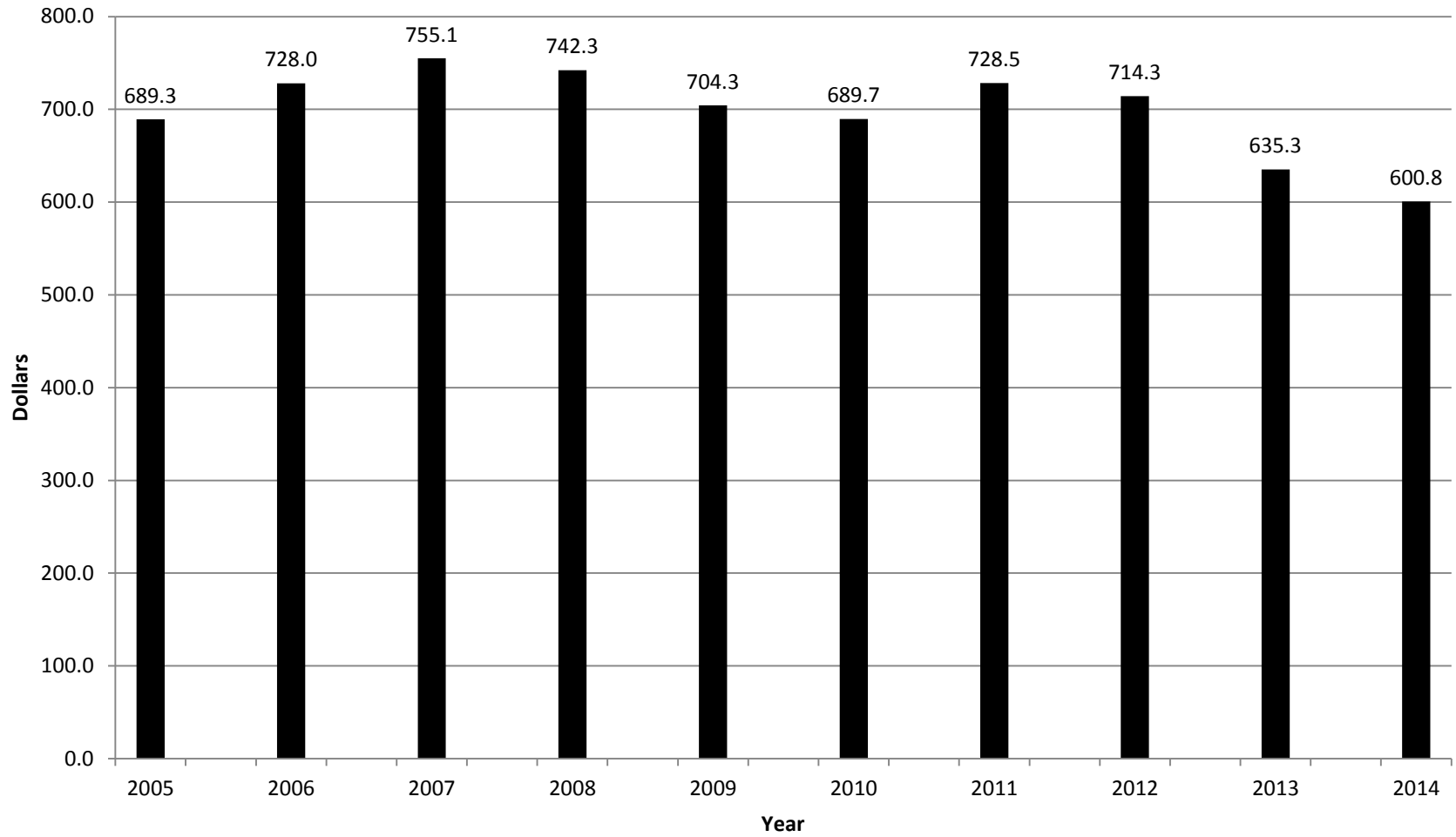
Population is provided by the Bureau of Census, U.S. Department of Commerce (<http://factfinder2.census.gov/>) through estimates released in December 2013

Personal income is provided by the Bureau of Economic Analysis, U.S. Department of Commerce (<http://www.bea.gov/regional/>) through estimates released in September 2014

Delaware Department of Labor, Office of Occupational and Labor Market Information (<http://www.delawareworks.com/oolmi/Home.aspx>)

EXHIBIT IX

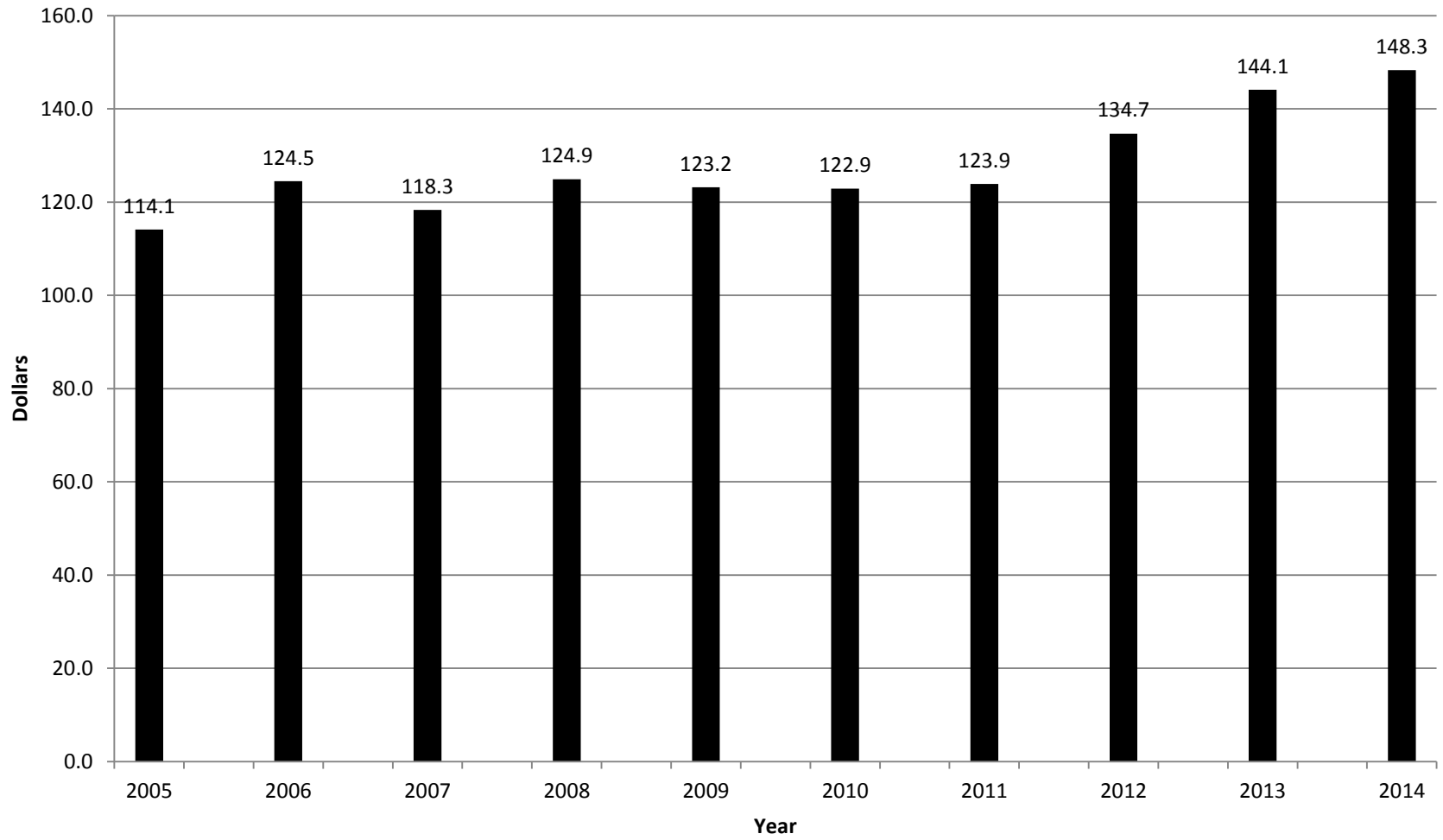
Consolidated Gross Revenue (in millions)



Source: Lottery Internal Records (See Exhibit XVII)

EXHIBIT X

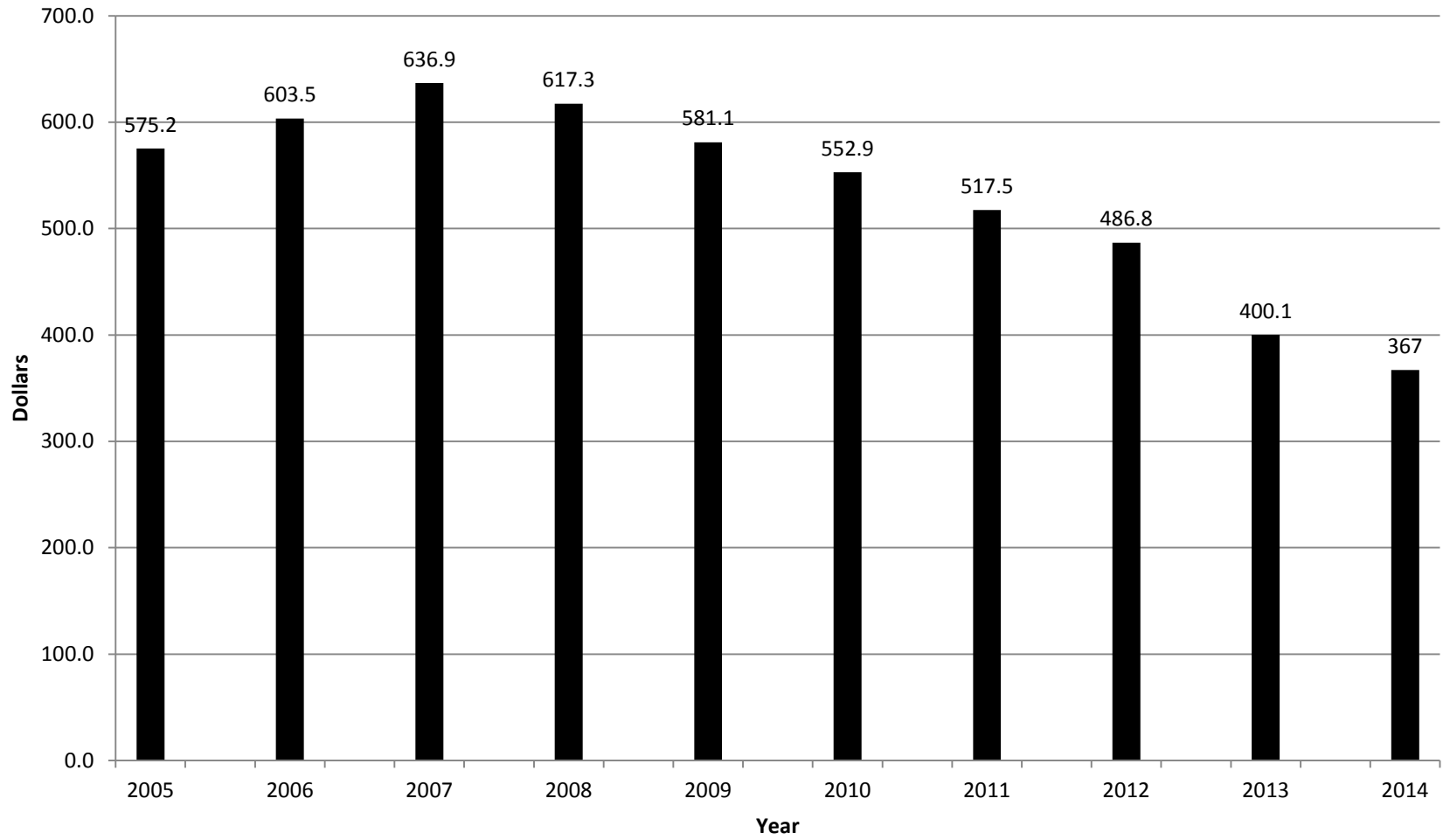
Traditional Lottery (Drawing & Instant) Games Gross Revenue (in millions)



Source: Lottery Internal Records (See Exhibit XVII)

EXHIBIT XI

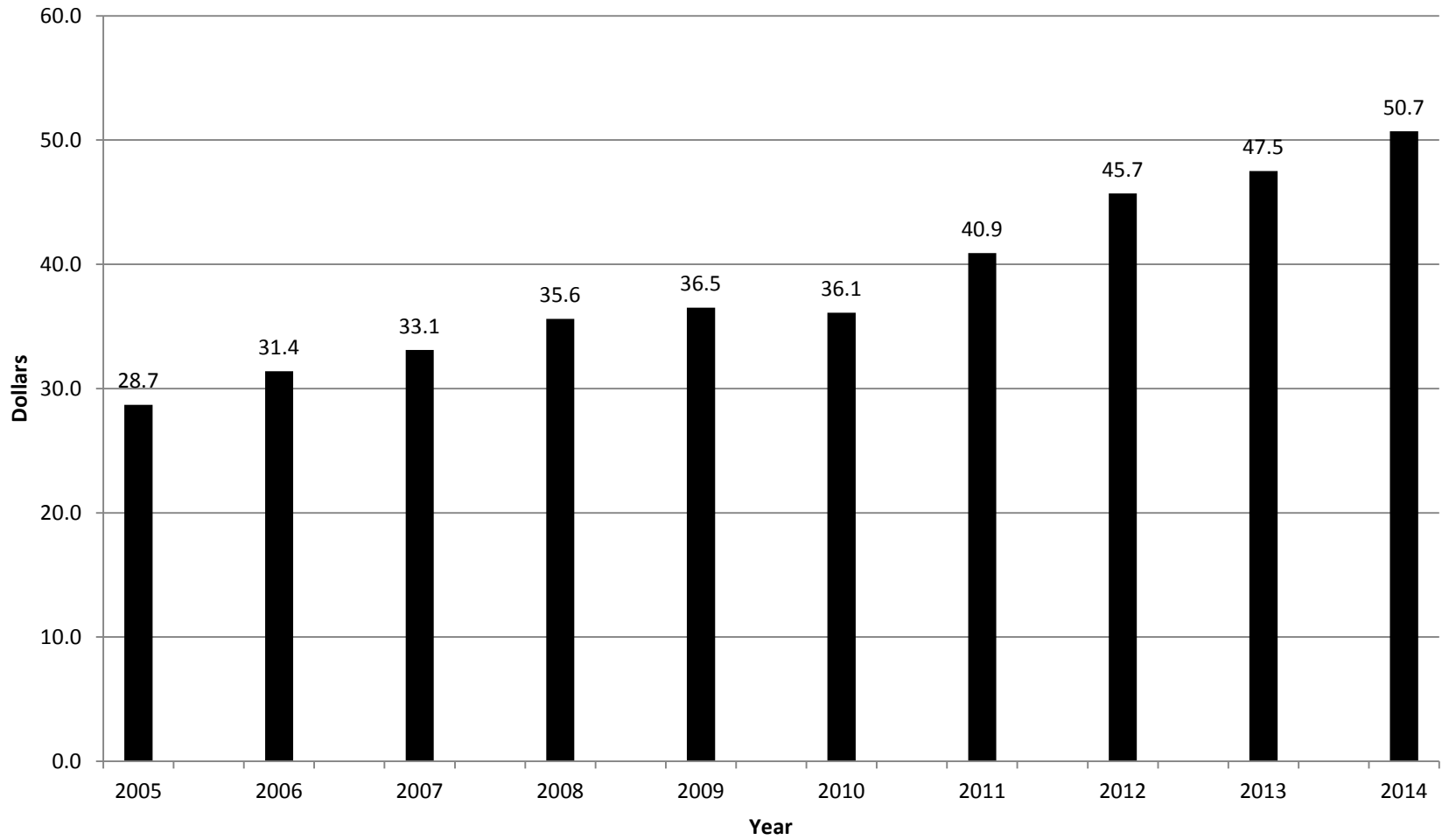
Video Lottery Gross Revenue (in millions)



Source: Lottery Internal Records (See Exhibit XVII)

EXHIBIT XII

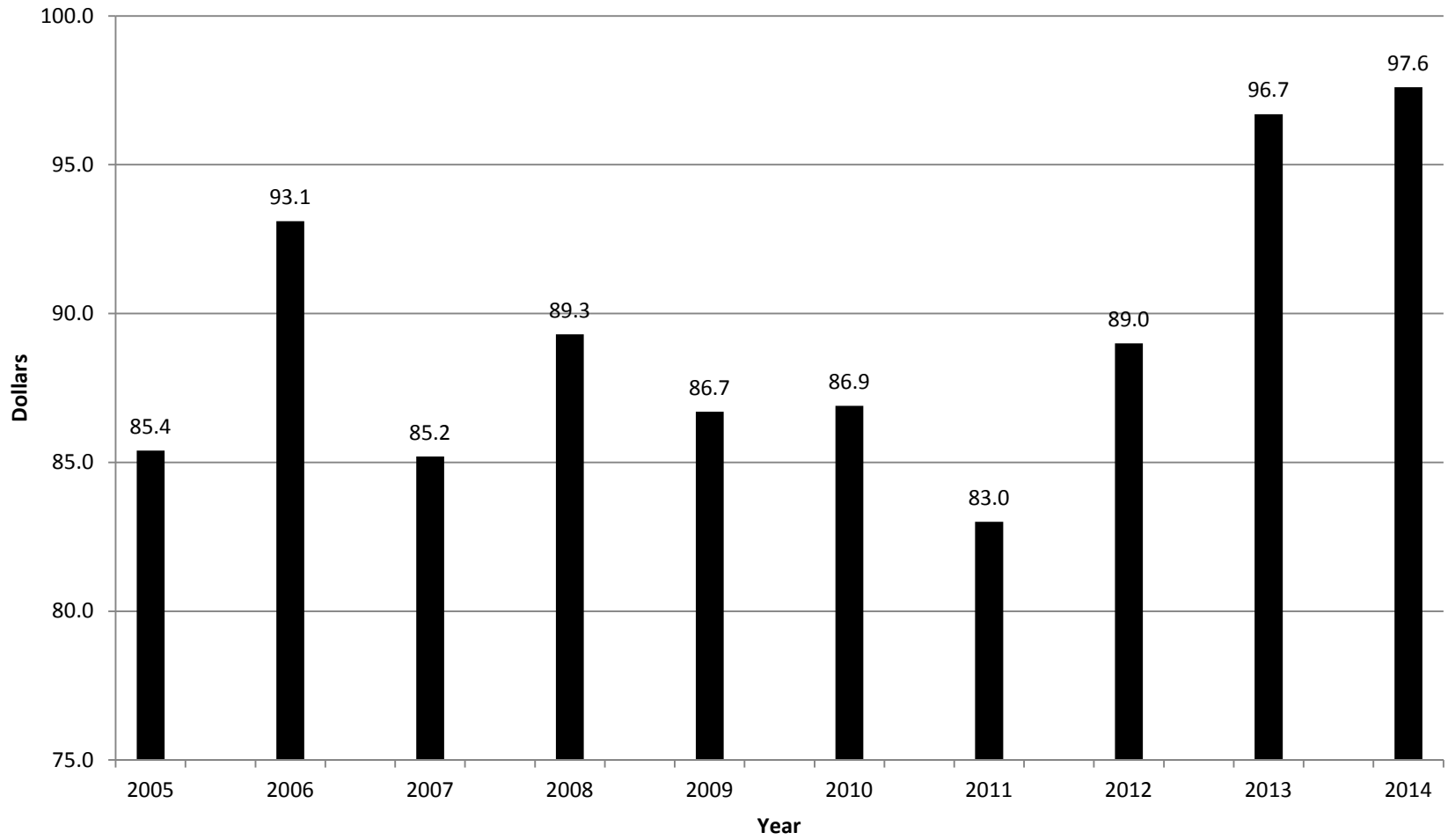
Instant Games Gross Revenue (in millions)



Source: Lottery Internal Records (See Exhibit XVII)

EXHIBIT XIII

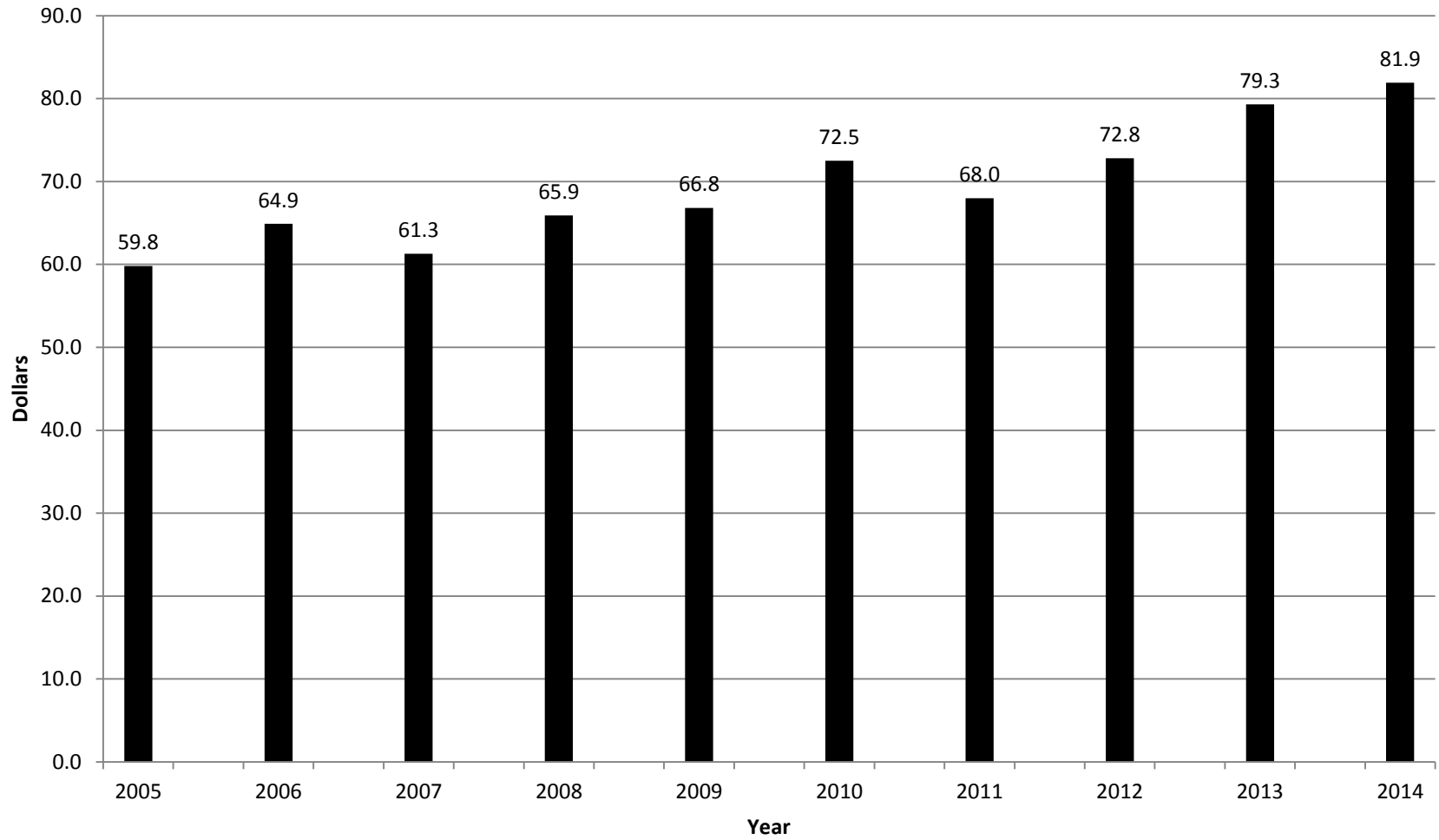
Traditional Drawing Games Gross Revenue (in millions)



Source: Lottery Internal Records (See Exhibit XVII)

EXHIBIT XIV

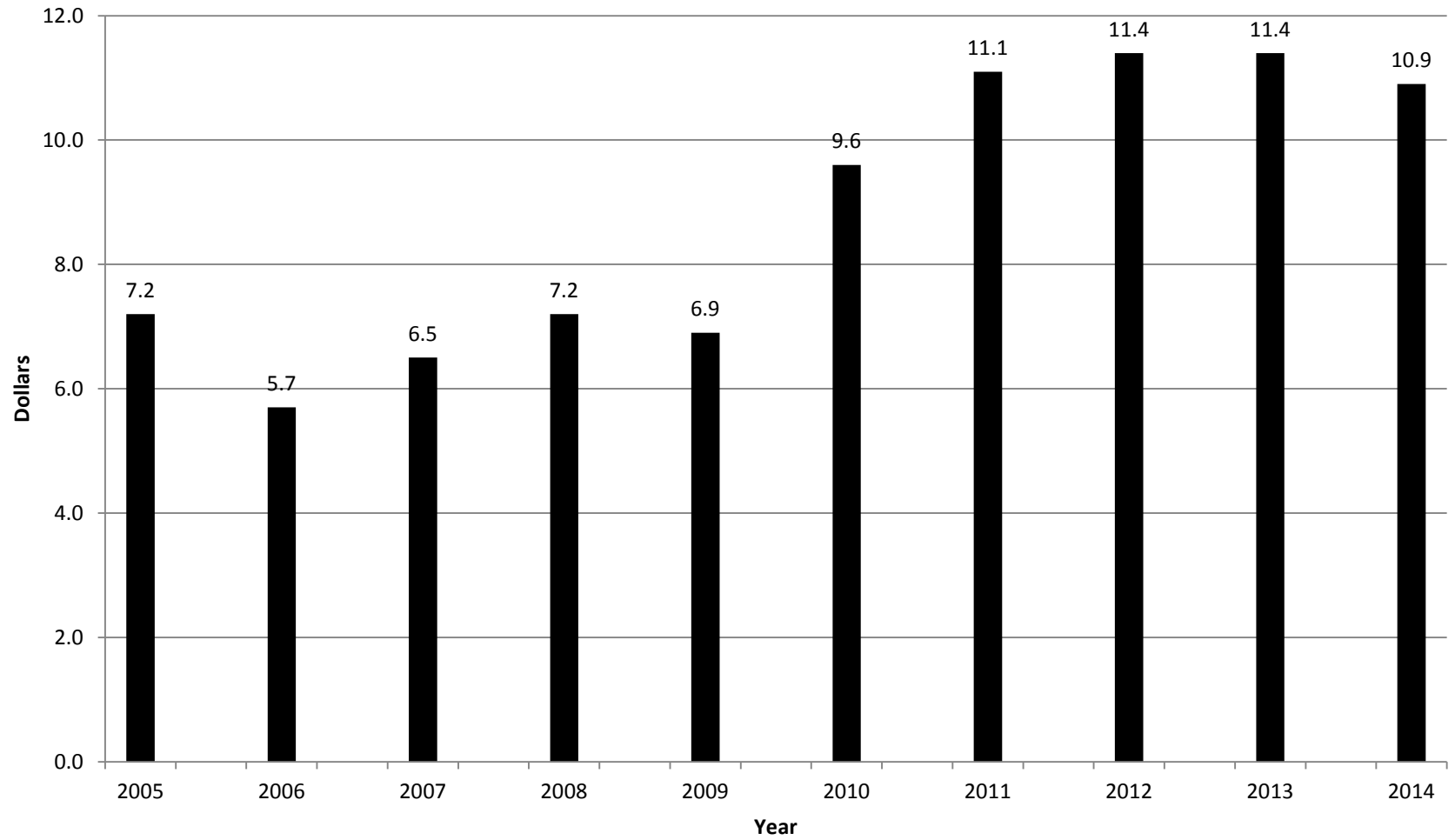
Traditional Lottery (Drawing & Instant Games) Prizes Awarded to Players (in millions)



Source: Lottery Internal Records (See Exhibit XVII)

EXHIBIT XV

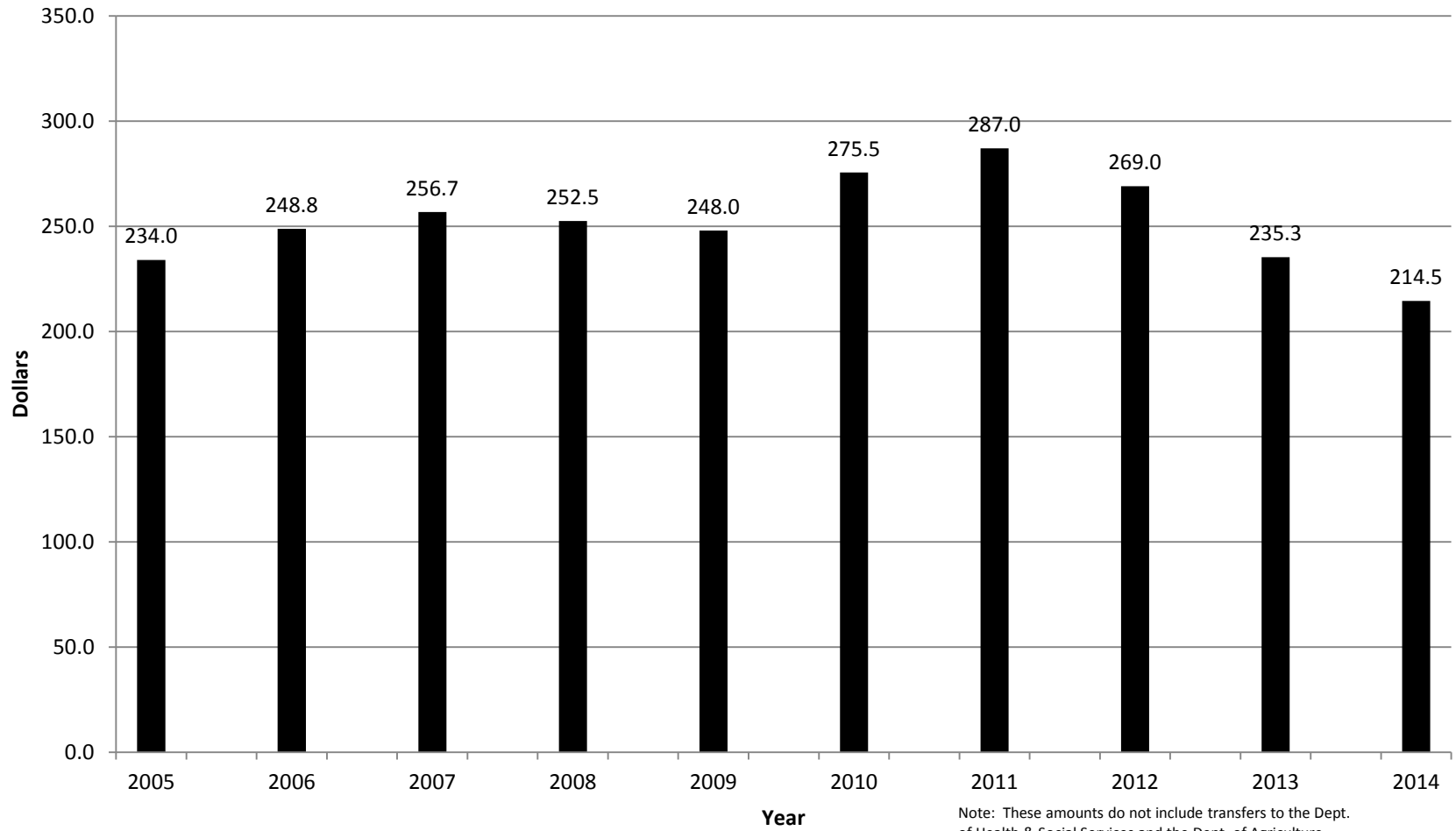
Operating Expenses (in millions)



Source: Lottery Internal Records (See Exhibit XVII)

EXHIBIT XVI

Cash Contributions to State General Fund (in millions)



Source: Lottery Internal Records (See Exhibit XVII)

Note: These amounts do not include transfers to the Dept. of Health & Social Services and the Dept. of Agriculture.

EXHIBIT XVII

Delaware State Lottery

Statistics

	Traditional Lottery Revenue \$ (millions)	Traditional Prizes Prizes Awarded to players \$ (millions)	Contributions to State General Fund \$ (millions)	Operating Expenses \$ (millions)	Video Lottery & I-Gaming Net Revenue \$ (millions)	Instant games Revenue \$ (millions)	Drawing games Revenue \$ (millions)	Sports lottery & Table games Revenue \$ (millions)	Total Lottery Revenue \$ (millions)
1976	6.7	2.7	2.0	17.3	0.0	6.7	0.0	0.0	6.7
1977	6.3	3.1	1.9	27.0	0.0	6.3	0.0	0.0	6.3
1978	5.4	2.6	1.6	16.2	0.0	1.6	3.8	0.0	5.4
1979	12.0	5.9	4.2	11.3	0.0	1.5	10.5	0.0	12.0
1980	16.0	8.1	5.6	9.4	0.0	1.9	14.1	0.0	16.0
1981	20.1	10.1	7.5	8.0	0.0	1.9	18.2	0.0	20.1
1982	25.6	13.3	9.5	6.7	0.0	2.2	23.4	0.0	25.6
1983	30.1	15.6	11.0	6.7	0.0	2.4	27.7	0.0	30.1
1984	33.1	15.4	14.0	6.2	0.0	2.1	31.0	0.0	33.1
1985	38.7	19.4	15.0	6.2	0.0	1.9	36.8	0.0	38.7
1986	41.1	19.7	16.7	6.3	0.0	2.4	38.7	0.0	41.1
1987	45.9	23.9	17.1	5.7	0.0	5.2	40.7	0.0	45.9
1988	55.6	29.2	20.5	5.5	0.0	9.7	45.9	0.0	55.6
1989	64.1	33.5	23.8	5.8	0.0	10.4	53.7	0.0	64.1
1990	67.2	35.0	25.1	5.5	0.0	13.8	53.4	0.0	67.2
1991	67.2	34.3	25.3	6.4	0.0	13.9	53.3	0.0	67.2
1992	78.5	41.5	27.7	6.9	0.0	15.8	62.7	0.0	78.5
1993	90.1	48.3	30.2	7.2	0.0	19.7	70.4	0.0	90.1
1994	100.6	53.4	34.3	7.1	0.0	17.5	83.1	0.0	100.6
1995	114.1	56.3	43.3	7.5	0.0	19.5	94.6	0.0	114.1
1996	111.8	58.2	57.8	10.5	77.1	23.9	87.9	0.0	188.9
1997	103.6	53.8	96.0	11.9	255.9	20.3	83.3	0.0	359.5
1998	120.7	62.4	125.4	11.2	326.7	18.2	102.5	0.0	447.4
1999	150.1	75.5	168.0	5.5	377.6	20.1	130.0	0.0	527.7
2000	102.7	51.1	185.4	6.9	453.9	19.6	83.1	0.0	556.6
2001	97.1	48.7	204.6	7.3	504.1	19.4	77.8	0.0	601.2
2002	117.2	59.2	230.0	7.3	556.8	21.0	96.2	0.0	674.0
2003	102.4	52.7	213.0	6.3	525.7	22.3	80.1	0.0	628.1
2004	108.6	53.2	222.0	5.6	532.3	25.0	83.6	0.0	640.9
2005	114.1	59.8	234.0	7.2	575.2	28.7	85.4	0.0	689.3
2006	124.5	64.9	248.8	5.7	603.5	31.4	93.1	0.0	728.0
2007	118.3	61.3	256.7	6.5	636.9	33.1	85.2	0.0	755.1
2008	124.9	65.9	252.5	7.2	617.3	35.6	89.3	0.0	742.3
2009	123.2	66.8	248.0	6.9	581.1	36.5	86.7	0.0	704.3
2010	122.9	72.5	275.5	9.6	552.9	36.1	86.9	13.8	689.7
2011	123.9	75.8	287.0	11.1	517.6	40.9	83.1	87.1	728.5
2012	134.7	85.6	269.0	11.4	486.8	45.7	89.0	92.8	714.3
2013	144.1	79.8	235.3	11.4	400.1	47.5	96.7	91.0	635.3
2014	148.3	81.9	214.5	10.9	368.5	50.7	97.6	84.0	600.8
Totals	3,211.5	1,700.4	4,359.8	339.3	8,950.0	732.4	2,479.5	368.7	12,530.3

EXHIBIT XVIII			
U.S. Lotteries'			
Comparison of Sales by Game			
Fiscal Years 2014 and 2013			
(in \$millions)			
GAME SALES (MILLIONS)	2014	2013	% INCREASE (DECREASE)
INSTANT	\$37,962.8	\$36,428.6	4.21%
PULL TAB	90.0	89.5	0.56%
3-DIGIT	5,301.7	5,268.5	0.63%
4-DIGIT	4,071.2	4,011.4	1.49%
LOTTO	1,792.9	1,827.6	-1.90%
CASH LOTTO	1,675.7	1,704.3	-1.68%
POWERBALL	4,735.9	5,744.0	-17.55%
MEGA MILLIONS	3,202.9	2,141.1	49.59%
HOT LOTTO	81.8	76.7	6.65%
KENO	3,315.8	3,155.6	5.08%
RAFFLE	79.6	119.6	-33.44%
VLT (VIDEO LOTTERY)	6,104.6	5,846.2	4.42%
OTHER	1,169.5	1,040.9	12.35%
TOTAL	\$69,584.4	\$67,454.0	3.16%
Source: La Fleur's Magazine, Sept/Oct 2014			

EXHIBIT XIX

U.S. Lotteries' Unaudited Fiscal Year 2014 Sales by Game

(in \$millions)

State	Population (M)	Instant	Pull Tab	3 - Digit	4 - Digit	Lotto	Cash Lotto	Power Ball	Mega Millions	Hot Lotto	Keno	Raffle	Other	Total Sales	PC Sales	VLT*
AZ	6.6	483.9	4.4	9.2		30.4	16.4	113.0	56.3				10.3	724.0	109	
AK	3.0	322.4		6.3	3.6	2.3	8.9	35.0	19.8			1.6	10.1	410.1	139	
CA	38.3	3,288.9		135.6	27.9	329.9	143.9	473.2	427.6		188.4		19.3	5,034.7	131	
CO	5.3	362.0		8.7		33.8	19.2	84.5	36.8					545.0	103	
CT	3.6	660.2		127.1	108.8	21.6	32.3	82.7	37.6			4.4	37.7	1,112.4	309	
DC	0.6	44.2		46.2	56.9	16.3		12.3	9.7	3.3	11.6		18.9	219.4	339	
DE	0.9	50.7		24.8	19.9	0.9	4.2	26.9	12.6	3.1	5.3			148.4	160	363.4
FL	19.6	3,417.1		339.6	257.8	349.1	79.5	469.3	167.6				288.2	5,368.2	275	
GA	10.0	2,727.5		481.9	212.6	18.1	98.7	132.5	128.4		193.2		29.4	4,022.2	403	
ID	1.6	122.8	23.2	1.9		2.8	2.0	36.5	13.4	3.2		2.5	0.6	209.0	130	
IL	12.9	1,757.4		258.4	202.3	114.3	134.7	163.3	145.0			16.5		2,791.8	217	
IN	6.6	702.6		31.1	30.0	48.7		106.6	46.4			0.9	52.5	1,018.7	155	
IA	3.1	188.8	15.7	6.9	3.2		2.5	61.2	21.8	10.4		0.2	3.2	314.1	102	
KS	2.9	134.6	11.2	6.0			13.0	41.3	16.8	7.4	19.1	3.5	5.3	258.2	89	
KY	4.4	519.9		125.2	38.7	5.8	10.0	79.5	39.8		29.3		8.3	856.4	195	
LA	4.6	178.9		50.0	39.6	28.2		102.3	39.0				11.0	449.0	97	
ME	1.3	170.8		5.1	4.1	1.0	1.7	22.1	6.9	2.0			5.4	219.1	165	
MD	5.9	479.6		244.5	270.8	26.7	21.4	105.8	100.5		308.1		166.5	1,724.0	291	578.4
MA	6.7	3,374.0	0.7		321.9	20.4	72.8	106.2	78.9		812.4		37.4	4,824.7	721	
MI	9.9	900.1	33.5	327.8	365.8	49.6	57.0	119.5	152.3		558.2	5.8	39.6	2,609.1	264	
MN	5.4	351.6		14.4			27.1	79.9	26.9	12.7		6.0	12.9	531.5	98	
MO	6.0	768.1		69.2	38.8	22.6	31.8	100.6	42.5		60.2		9.5	1,143.4	189	
MT	1.0	16.5				1.9	3.7	15.6	5.2	3.2		2.6	4.6	53.3	52	
NE	1.9	84.7		4.1	2.0	1.7	10.8	40.4	14.1					157.8	84	
NH	1.3	194.7		5.1	4.8	8.1	6.3	35.1	13.5	3.2			4.3	275.0	208	
NJ	8.9	1,525.8		436.7	268.4	77.5	147.8	233.7	205.9					2,895.8	325	
NM	2.1	69.8		3.8			8.6	34.0	13.4	5.7			0.6	136.0	65	
NY	19.7	3,677.1		873.8	831.2	94.6	288.6	463.0	400.5		654.2	1.8	29.4	7,314.2	372	1,912.3
NC	9.8	1,170.3		261.0	113.2		70.8	149.2	74.8					1,839.3	187	
ND	0.7							12.7	6.0	2.7			5.5	27.0	37	
OH	11.6	1,424.9		339.0	185.8	62.8	54.1	122.8	132.7		294.5	1.0	117.4	2,735.0	236	437.6
OK	3.9	85.9		4.8	0.4		4.4	58.8	27.7	8.9		0.2		191.1	50	
OR	3.9	109.0			1.4	28.4	4.5	45.1	22.3		92.5	5.0	1.9	310.1	79	742.7
PA	12.8	2,444.9		329.7	238.6	95.9	151.5	301.4	145.9			19.9	71.8	3,799.6	297	
RI	1.1	84.0	0.0			24.1	4.5	31.5	12.6	6.7	78.2		1.1	242.8	231	507.1
SC	4.8	875.5		148.4	71.7	19.9	3.8	93.6	51.6					1,264.4	265	
SD	0.8	25.9				2.4	2.0	16.6	4.8	3.3				54.9	65	590.5
TX	26.4	3,280.2		259.4	88.5	154.3	52.4	222.1	224.1				103.5	4,384.6	166	
VT	0.6	76.0		1.4	1.2	6.0	0.9	9.5	4.0	0.8		0.1	2.5	102.3	163	
VA	8.3	988.6		265.1	244.1	27.1	30.1	113.7	115.3			6.6	20.1	1,810.8	219	
WA	7.0	379.4		16.7		47.5	23.9	56.7	53.2		5.8		12.1	595.1	85	
WV	1.9	105.6		8.3	4.9		5.2	39.5	14.9	5.3	5.0			188.6	102	972.6
WI	5.7	337.7	1.3	24.5	12.6	18.1	24.5	86.9	33.9			0.9	28.5	568.8	99	
Total	299.9	37,962.8	90.0	5,301.7	4,071.2	1,792.9	1,675.7	4,735.9	3,202.9	81.8	3,315.8	79.6	1,169.5	63,479.8	212	6,104.6

*VLT sales denote net machine income except for South Dakota, which reports cash-in figures

Source: La Fleur's Magazine, Sept/Oct 2014

EXHIBIT XX

U.S. Lotteries' Unaudited Fiscal Year 2013 Sales by Game
(in \$millions)

State	Population (M)	Instant	Pull Tab	3 - Digit	4 - Digit	Lotto	Cash Lotto	Power Ball	Mega Millions	Hot Lotto	Keno	Raffle	Other	Total Sales	PC Sales	VLT*
AZ	6.6	436.6	3.9	8.5		33.0	15.8	151.2	32.4				11.6	693.0	\$106	
AK	2.9	355.1		6.2	3.3		7.0	47.4	13.9			0.4	6.3	439.6	\$149	
CA	38.0	3,010.1		135.5	28.9	375.4	166.6	183.6	376.7		154.4		14.7	4,445.9	\$117	
CO	5.2	368.6		1.9		32.6	21.3	116.7	23.2			2.0		566.3	\$109	
CT	3.6	667.3		126.4	107.2	22.1	32.6	107.4	23.7			5.6	30.4	1,122.7	\$313	
DC	0.6	57.9		50.0	61.2	16.1		20.1	6.4	3.2	12.1		16.7	243.7	\$386	
DE	0.9	48.2		25.3	19.5	4.3	0.9	34.5	7.8	3.3	2.5			146.3	\$159	396.8
FL	19.3	3,028.5		324.5	244.1	352.4	89.5	654.3	16.7			12.9	290.1	5,013.0	\$260	
GA	9.9	2,630.7		476.8	209.3	24.0	95.0	177.7	93.3		189.6		15.6	3,912.0	\$394	
ID	1.6	108.7	21.8	1.9			2.2	45.5	9.2	3.1		2.5	2.7	197.6	\$124	
IL	12.9	1,768.4		269.6	198.7	96.6	134.7	237.8	109.1			26.5		2,841.4	\$221	
IN	6.5	614.8	1.5	29.8	29.6	44.1		142.0	27.2			1.1	43.8	933.9	\$143	
IA	3.1	202.3	16.2	6.8	3.1		4.5	81.4	13.3	11.7		3.3		342.6	\$110	
KS	2.9	126.7	11.0	5.8			13.4	52.1	10.4	7.4	20.5		5.2	252.5	\$89	
KY	4.4	522.2		125.6	38.7	6.2	10.5	105.0	27.1				11.4	846.7	\$193	
LA	4.6	163.1		49.5	39.5	25.6		129.9	28.2				11.6	447.4	\$97	
ME	1.3	163.4		5.2	4.2	14.1	6.7	27.3	4.5	2.0			0.4	227.8	\$171	
MD	5.9	485.8		245.5	267.8	28.8	21.1	131.3	71.0		344.8		160.0	1,756.1	\$298	560.7
MA	6.6	3,343.3	0.7		324.5	22.1	70.3	147.7	53.3		800.7	3.3	41.6	4,807.5	\$723	
MI (Est)	9.9	818.8	31.6	320.4	353.8	43.4	53.8	166.5	122.0		553.2	7.4		2,470.9	\$250	
MN	5.4	363.8		13.9			31.1	107.1	15.1	13.0		6.0	10.4	560.4	\$104	
MO	6.0	758.9		65.8	34.5	22.2	36.8	127.2	26.1		65.4		4.3	1,141.2	\$190	
MT	1.0	17.3				2.1	3.4	20.2	3.5	3.1		2.6	4.8	57.0	\$57	
NE	1.9	83.6		3.7	2.0	1.7	11.0	49.6	9.3					160.9	\$87	
NH	1.3	192.1		5.1	4.8	8.9	7.8	46.2	8.8	3.2			1.8	278.7	\$211	
NJ	8.9	1,474.3		434.0	266.1	65.3	144.4	300.4	136.8					2,821.3	\$318	
NM	2.1	69.9		3.5			6.8	46.7	8.1	5.9			0.9	141.8	\$68	
NY	19.6	3,724.2		847.2	793.5	110.0	301.1	468.4	254.4		579.9		30.1	7,108.8	\$363	1,825.4
NC	9.8	1,011.9		258.9	103.9		64.5	196.9	53.7					1,689.8	\$173	
ND	0.7							16.4	3.3	2.9			5.3	27.9	\$40	
OH	11.5	1,429.7		345.1	189.7	102.6	27.7	166.6	102.8		250.5	9.1	71.1	2,694.9	\$233	165.5
OK	3.8	89.4		4.3	1.9		4.2	76.0	16.1	8.3				200.2	\$52	
OR	3.9	117.1			1.4	38.1	4.8	58.3	11.8		91.6	5.0	2.3	330.4	\$85	737.4
PA	12.8	2,305.1		345.1	242.6	65.1	167.5	400.9	83.8			20.4	68.8	3,699.3	\$290	
RI	1.1	85.0	0.1		24.5		3.6	40.9	7.9		79.0	2.3	10.1	253.4	\$241	520.7
SC	4.7	806.0		148.3	70.2	20.7	3.6	117.6	32.7					1,199.1	\$254	
SD	0.8	25.2				2.2	2.4	21.0	3.1	3.5				57.4	\$69	580.1
TX	26.1	3,204.9		274.5	80.4	152.5	56.0	328.1	135.7				124.0	4,356.1	\$167	
VT	0.6	74.2		1.4	1.3	7.5	0.1	12.0	2.8	1.0			1.8	102.1	\$163	
VA	8.2	887.1		253.7	232.2	29.2	28.3	145.7	89.5			6.9	16.6	1,689.2	\$206	
WA	6.9	356.0		16.7	11.9	43.8	22.8	75.9	35.5		5.7	1.3		569.6	\$83	
WV	1.9	108.6		8.3	4.7		5.2	48.7	9.3	5.1	5.7			195.6	\$105	1,059.6
WI	5.7	323.8	2.7	23.8	12.4	14.9	25.3	113.8	21.6			1.0	26.5	565.8	\$99	
Total	291.4	36,428.6	89.5	5,268.5	4,011.4	1,827.6	1,704.3	5,744.0	2,141.1	76.7	3,155.6	119.6	1,040.9	61,607.8	\$211	5,846.2

*VLT sales denote net machine income except for South Dakota, which reports cash-in figures

Source: La Fleur's Magazine, Sept/Oct 2013