

DELAWARE STATE LOTTERY

An Enterprise Fund of the State of Delaware



COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

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Delaware State Lottery

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INTRODUCTORY SECTION





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November 4, 2016

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, 2016. 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, 2015.

The Financial section begins with the independent auditors' report followed by management's discussion and analysis and then by the Lottery's audited financial statements and accompanying notes for the years ended June 30, 2016 and 2015.

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, and internet gaming for video and table (I-Gaming). This report includes only activity of the Lottery and does not include data or information related to any other state agency or fund.

LOTTERY MISSION STATEMENT:

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

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

TRADITIONAL LOTTERY:

The 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 up to 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 635 retailers operating over 671 terminals (as of June 30, 2016) representing various types of businesses as depicted in the charts on page 6.

TRADITIONAL LOTTERY PRODUCTS:

INSTANT GAMES

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

PLAY 3[®]

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[®]

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

MULTI-WIN LOTTO

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



Powerball is a traditional lottery drawing game jointly operated by 47 lotteries of which 37 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 69” for the first set and a matrix of “1 of 26” for the second (Powerball) set. Players have the option of receiving the jackpot as an annuity over 29 years or receiving the present value of the annuity stream in cash. A Powerball ticket costs \$2. The minimum jackpot offered is \$40 million. There are eight prize levels up to \$2 million. Drawings are held every Wednesday and Saturday. The jackpot amount increases for each drawing if no winning ticket matches the first set of five numbers and the Powerball number

of the second set. An additional feature of the Powerball game is the Power Play option. Players can wager an additional \$1 for each Powerball game that they chose to play. If they win, they're guaranteed to win the set Power Play prize amount. Power Play does not apply to the jackpot.



During February 2008, the Lottery began to sell tickets for the Hot Lotto game. The Hot Lotto game is also a traditional lottery drawing 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 are guaranteed to triple that amount.



During January 2010, the Lottery began to sell tickets for Mega Millions, one of the country's biggest traditional lottery drawing jackpot game. 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 January 2013, Keno was launched at more than 100 retail locations. Keno is an easy, fun and fast-paced traditional lottery drawing game that allows you to choose how many numbers to play and how much money to wager. Keno is played using a field of numbers from 1 to 80. You may choose up to 10 numbers in that field. The Lottery's computer continuously generates random sets of 20 numbers. These numbers are then displayed on the Keno monitor. There are a variety of ways to win based on matching some, all, or in some cases, none of the numbers. Keno is available daily from 6:04 a.m. to 12:04 a.m. Drawings take place every four minutes. As of June 30, 2016 there were 139 lottery retailers selling the Keno product.

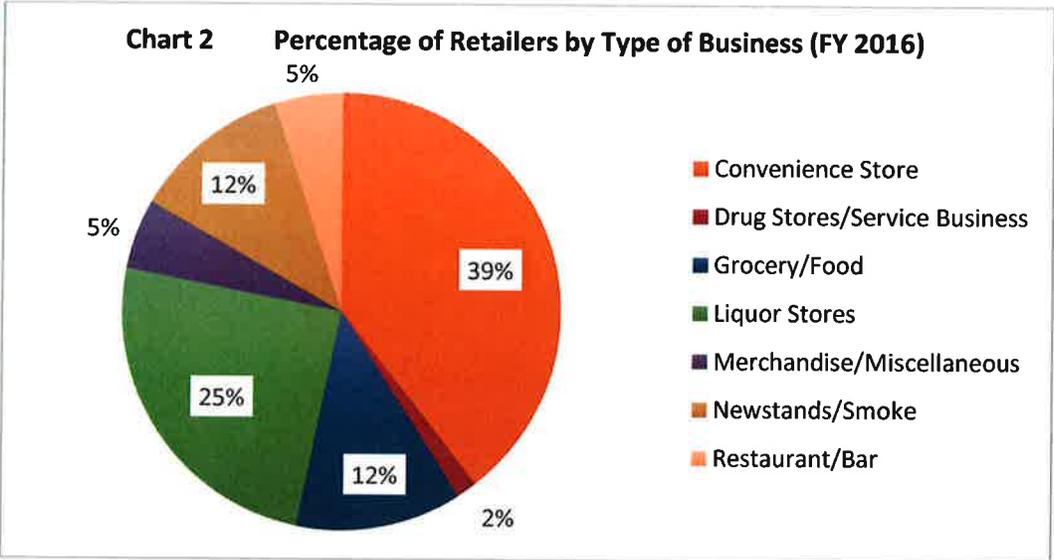


In February of 2015, Delaware joined a game called Lucky for Life. A total of 21 other states have combined their sales on this multi-state game. The top prize for this game is \$1,000 a day for life. The second prize is \$25,000 a year for life. Players select five numbers from 1 to 48 plus one number from 1 to 18 for the "Lucky" ball. The ticket cost \$2 and there are 8 set prizes in the pool ranging from \$4 to \$5,000. Drawings are held every Monday and Thursday nights.

Retailer Data:



Source: Lottery Internal Records



Source: Lottery Internal Records



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

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

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

- Licensing of agents and gaming machine providers
- Duties of agents and gaming machine providers
- Game requirements
- Transportation, registration, location and maintenance of video lottery machines
- Standards of operation
- Standards for advertising, marketing and promotional materials
- Payout percentages to players as established by law

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

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

The enabling legislation, as mentioned above, contained a sunset clause, which would have terminated the Act after five years from March 15, 1995, if the legislation was not extended or reenacted. On March 26, 1998, the Act was re-authorized and the sunset provision was revoked. Among other provisions, this legislation also authorized the operation of an additional 1,000 video lottery machines at each racetrack, bringing the total allowable machines at each track to 2,000. Additional legislation was passed on June 13, 2003, which permits the Lottery Director to authorize 500 additional video lottery machines at each licensed racetrack, bringing the total allowable machines at each track to 2,500. Again on January 19, 2006, legislation was passed to increase the maximum number of video lottery machines at each racetrack from 2,500 to 4,000. As of June 30, 2016, there were 2,297 machines at Delaware Park, 2,287 machines at Dover Downs and 1,785 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.

More, legislative changes were made based on the recommendations of the Lottery & Gaming Study Commission created by the General Assembly changing the initial methodology of video revenue distribution. Effective July 1, 2014, 75% of certain video lottery equipment costs will be deducted from net revenue prior to the calculation of the State's share of revenue.



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

In reestablishing the sports lottery, the bill took advantage of an exemption granted to the State of Delaware under federal law, namely the 1992 Professional and Amateur Sports Protection Act, which allows the states of Delaware, Nevada, Oregon, and Montana to engage in sports betting.

The bill authorized the conduct of sports lottery only at the three casinos presently operating. Proceeds from the conduct of sports lottery at the casinos would be divided equally between the casinos and the State. The bill imposed a collective annual license fee of \$4,000,000, which is

divided among the three casinos in proportion to each property's percentage of the State's total video lottery net proceeds. This fee was eliminated in fiscal year 2012 with the passage of House Bill 333, *The Delaware Gaming Competitiveness act of 2012*.

The Delaware 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, 31 Sports Lottery retail locations were established throughout the State. The number of Sports Lottery retailers were increased over the next two seasons with 102 for the 2015/2016 season.



On January 15, 2010, enabling legislation was passed by the General Assembly of the State of Delaware authorizing the introduction and operation of table games by the Delaware Lottery at licensed video lottery agents. On 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 state general fund.

This bill also imposed a license fee structure that will reward video lottery agents for making capital investments by allowing them to reduce the annual license fee by up to 50% to account for the cost of capital projects, and that reduces the total license fee further if the video lottery agents are able to achieve certain table gaming revenue annual targets. As such, this bill promotes capital investment by video lottery agents, encourages the video lottery agents to achieve reasonable revenue targets, and creates additional new employment opportunities.

This bill also authorized the creation of a Lottery Commission, which would have responsibility for conducting hearings on disputed licensing and exclusion matters. Additionally, the bill authorized the creation of the Division of Gaming Enforcement in the Department of Safety and Homeland Security. Replacing the Video Lottery Enforcement Unit, the Division would consist of Delaware State Police investigators, responsible for investigating table gaming crimes, as well as the background checks.



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

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

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 9% to \$71.6 billion in fiscal year 2016. This is an increase of \$6 billion over fiscal year 2015. (Please see Exhibit XX in the “Statistical Section” of this report).

The Wyoming Lottery led the industry with an 87% increase in traditional lottery sales in fiscal year 2016. Twenty-four U.S. Lotteries posted double-digit growth for traditional lottery sales in fiscal year 2016. The New York Lottery ranked first in gross traditional sales at \$7.7 billion. The Massachusetts Lottery ranked first in per capita total sales at \$765.

Total U.S instant ticket sales increased 7% to \$43.8 billion, up \$3 billion in additional instant sales to the bottom line in fiscal year 2016 over fiscal year 2015. The Massachusetts Lottery ranked first in per capita instant sales at \$530. The California Lottery ranked first in gross sales of \$4.3 billion. The D.C. Lottery ranked first with a 64% increase in fiscal year 2016 instant sales over fiscal year 2015.

In fiscal year 2016 traditional lottery drawing game sales increased 12% to \$27.7 billion from \$24.7 billion in the previous year. The Wyoming Lottery led the industry with an 87% increase in drawing game sales. The New York Lottery ranked first in gross drawing game sales with \$3.8 billion. The D.C Lottery ranked first in per capita draw sales at \$264. Notably, 43 of the 44 lotteries achieved an increase in fiscal year 2016 draw sales over fiscal year 2015.

Fiscal year 2016 was the year of the \$1.58 billion Jackpot. Powerball sales jumped 67% over fiscal year 2015. Mega Millions fiscal year 2016 sales fell 9%. 3-digit games increased their sales by 3% to \$5.5 billion and 4-digit games increased their sales by 4% to \$4.5 billion. Keno sales rose nationally 8% to \$3.8 billion for fiscal year 2016.

MAJOR INITIATIVES

GENERAL:

After the completion of fiscal year 2016 the Delaware Lottery has generated over \$4.7 billion to the State's general fund. Since the commencement of video lottery and table games, The Delaware Lottery has contributed \$32.1 million to the Department of Health and Social Services to help fund initiatives that address problem gambling in Delaware.

During fiscal year 2016, for the second year in a row, Delaware Lottery's traditional products had a record sales year of \$175.0 million, which represented a 16.9% increase over fiscal year 2015. Sales were led by instant scratch-off games, Powerball, and our daily number games. Contributing to this success was MUSL changing the format for Powerball by increasing the odds of winning the jackpot.

During fiscal year 2016, the 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 fiscal year 2013. During fiscal year 2016, the number of retail establishments participating in Sports Lottery increased to 102 retail establishments during the 2015/2016 pro football season. The result was a jump in revenue to \$39.4 million in fiscal year 2016 from \$37.9 million in fiscal year 2015.

The expansion of Keno into more retail locations provided an increase in sales to \$8.0 million in fiscal year 2016 over \$6.7 million in fiscal year 2015.

During fiscal year 2016, internet casino wagering in Delaware expanded by accepting wagers on mobile devices and the Lottery expanded game content by adding another vendor. These expansions aided in I-Gaming having a record year of net proceeds.

The Delaware Lottery was ranked 38th out of 44 U.S. lotteries in total traditional lottery sales but finished 22nd in per capita sales. Delaware ranked 4th in percent of change in traditional lottery sales with a 16% increase in sales over fiscal year 2015. The Delaware Lottery ranked 31st in per capita instant sales and placed 3rd in overall change in instant sales with a 20% increase. The Delaware Lottery ranked 32nd out of 44 states in draw sales and ranked 11th in per capita sales.

VIDEO LOTTERY:

With more than 6,000 games in play, video lottery net proceeds for the fiscal year totaled more than \$360.8 million.

During fiscal year 2016, the Lottery issued a Request for Proposals (RFP) for Automated Electronic Table Games. After an extensive review process, the Lottery negotiated and subsequently signed Agreements with three qualifying bidders.

International Game Technology (IGT), a video lottery terminal manufacturer, installed their latest in technology 3D video terminals, which offer glasses-free 3D gaming entertainment, at all three Delaware Casinos.

IGT also installed their "Floor Manager System" to a select group of machines at all three Delaware Casinos. The Management System adds more flexibility in game changes to include the instant downloading of games. This results in a reduction of implementation time at a reduced cost.

Both the Casino at Delaware Park and Dover Downs Hotel and Casino began the implementation of major upgrades to their Casino Management Systems. These upgrades will offer more functionality to the systems and provide for a more efficient overall operation, including the improved monitoring of patron play with more concise and timely reporting of vital information to different departments within the casinos.

In May of this year, a lucky patron won a \$100,000 jackpot on a terminal at Dover Downs Hotel and Casino.

TABLE GAMES:

During fiscal year 2016, the sixth full year of table games operations, more than 34 requests were received and approved from the casinos asking for changes to their internal controls. These requests ranged from the addition of new games to changes on the gaming floor processes. Also over 160 requests were made to hold different types of table game tournaments, which included Blackjack, Craps and Poker. All three venues continue review of their current internal controls to make sure the approved submission were added to the document and are aligned with the State Regulation and Lottery's minimum internal control standards (MICS). The three casinos offered a combination of 115 gaming tables and 73 poker tables. They continue to explore different type of products and promotions to make their location as attractive as possible.

Delaware Park continued to make improvements to their gaming floor. They reviewed all of their current game offerings to see if the games, tournaments and promotions gave the patrons the best available selections possible. They have held over 70 poker tournaments with the intent of driving the business to their property and away from Maryland and Pennsylvania.

Dover Downs offers a variety of poker tournaments and promotions as well. They hosted a multi-day poker event that is well attended. In addition to the multi-day event other tournaments were offered where the prizes consisted of cruises

Harrington offers several types of promotions and tournaments. During fiscal year 2016, they offered monthly Craps, Blackjack and poker tournaments. Harrington also offers a match play coupon program to their patrons.

All three properties also offered a gaming floor promotion where the prize was an all-expense trip to Las Vegas and entry into a gaming tournament.

INFORMATION TECHNOLOGY:

During fiscal year 2016, the Lottery's Internet Technology (IT) Department continued support for in-house and off-the-shelf applications including the Draw Utilities Application, the Table Games Violations application, the Player Information Line Activity Reports application and Microsoft Dynamic, the lottery's accounting software.

The IT Department successfully upgraded its web server and database server.

The IT Department is working on an upgrade to the firewall in order to provide a more secure environment to the Lottery systems.

MARKETING AND SALES MANAGEMENT:

The Delaware Lottery reached its 40-year mark of being in the industry and what a better way to celebrate your birthday than with a party! Well that's exactly what the Lottery did for its 40th

Anniversary on October 27, 2015 at the Dover Downs Hotel and Casino with over 250 of our tenured retailers, players and friends.

The Lottery kicked off its anniversary celebration introducing a new instant game, "40 Years of Fun" with a top prize of \$4,000 and followed with a statewide promotion giving away \$40,000 in cash and additional prizes. Random drawings were conducted three consecutive months and a total of 12 lucky winners were selected to attend our 40th anniversary bash and received a chance to win one of the four \$10,000 cash prizes.

In conjunction with our 40th anniversary, we launched our first ever \$25 price point instant ticket, "Quarter Million Large", with a top prize of \$250,000. The game was received so well that within a couple of weeks after game launch, we reordered more tickets. To date we have awarded two out of three \$250,000 top prizes.

During fiscal year 2016, the traditional Lottery games network continued to grow through the expansion of Keno and Sports Lottery. The total number of businesses licensed as Lottery retailers throughout the State has reached and stabilized at its highest level in 40 years.

Lucky for Life, tagged as "The Game of a Lifetime™," is our newest multi-state draw game. The game gives players a chance to win \$1,000 a day for life and has had 16 third prize winners since the game launched in January 2015.

Also during fiscal year 2016 we experienced two record level jackpot drawings; Powerball® hit a record high of \$1.5 billion in January 2016 and Multi Win Lotto, our own Delaware jackpot game, hit a record high of \$288,000 in April 2016.

Delaware Lottery's marketing program maintained its long-standing sponsorships with both the University of Delaware and Delaware State University, participating in a variety of cooperative sports programs conducted during the spring and winter sports season. For a second year in a row, The Delaware Lottery was the presenting sponsor for the Chicago Sky-WNBA basketball opening pre-season game, held at the University of Delaware's Bob Carpenter Center. In addition, the Lottery continued sponsorships with the Delaware State Fair as well as participating in more recent associations with such diverse events as the Wyoming Peach Festival, Milford Bud & Bug Festival, Triple Threat Beer & BBQ Festival in Harrington, Saint Anthony's Italian Festival, Old Dover Days, Delaware 87ers and the Delaware Wine and Beer Festival. The Lottery also sponsored the exhibition games for the women's USA basketball team at the Bob Carpenter Center.

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 2016, the Security and Support Services group of the Lottery continued their concentration on managing the user acceptance testing (UAT) for the central gaming system, instant ticket, randomizer and internal control systems. There were two releases tested for the central gaming system and one patch for the instant ticket system. An audit was conducted of the Multi-State Lottery (MUSL) Rules and Confidential Security Standards for the Powerball game to ensure compliance.

The number of 2nd chance drawings has grown in popularity. Work processes and procedures were continually reviewed to identify areas where quality improvements need to be made. Investigated various state contracted shredding services to determine which one would best meet the Lottery's needs. CPR/AED/First Aid certification training was conducted for employees.

The Security and Support Services group worked closely with each unit of the Lottery to ensure Disaster Recovery plans were up-to-date. Work with Delaware's Department of Technology and Information (DTI) continues 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 Lanham, Maryland site successfully during 2016. The Lottery underwent a successful Continuity of Operations (COOP) Audit conducted by DTI.

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.
- Continue monitoring and improving internal controls and accounting practices and policies.

VIDEO LOTTERY:

- Plans to increase the number of WMS machines at the Charitable Gaming Organizations (CGO) with more organizations participating.
- Conduct an extensive review of current video lottery regulations.

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.

INFORMATION TECHNOLOGY:

- Continue to develop and enhance all internally developed IT applications.
- Continue application and hardware support of the Delaware State Lottery.
- Migrate Marketing Department files onto a brand new server for improved availability and disaster recovery performances.
- Upgrade the virtual environment to the higher version.
- Continue to work with Delaware's Department of Technology and Information and other internal and external agencies/vendors to support the Lottery.

MARKETING AND SALES MANAGEMENT:

- Continue the expansion of our retailer network by adding Keno retailers.
- Expand retailer network to new and unique trade styles to grow Keno sales.
- Introduce Mobile Sports and expand Sports Lottery retailer network as needed.
- Introduce an Instant Ticket Loyalty Program.
- 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.
- Conduct player and customer satisfaction surveys as well as strive to continually improve service in accordance with the Lottery's quality initiative.
- Contribute to the design and development of improved sales management, reporting, and communications solutions for Lottery support staff and retailers that capitalize on available Internet and wireless technologies.
- Continue to employ effective sales management techniques to stimulate positive selling activities among licensed retailers.

SECURITY AND SUPPORT SERVICES:

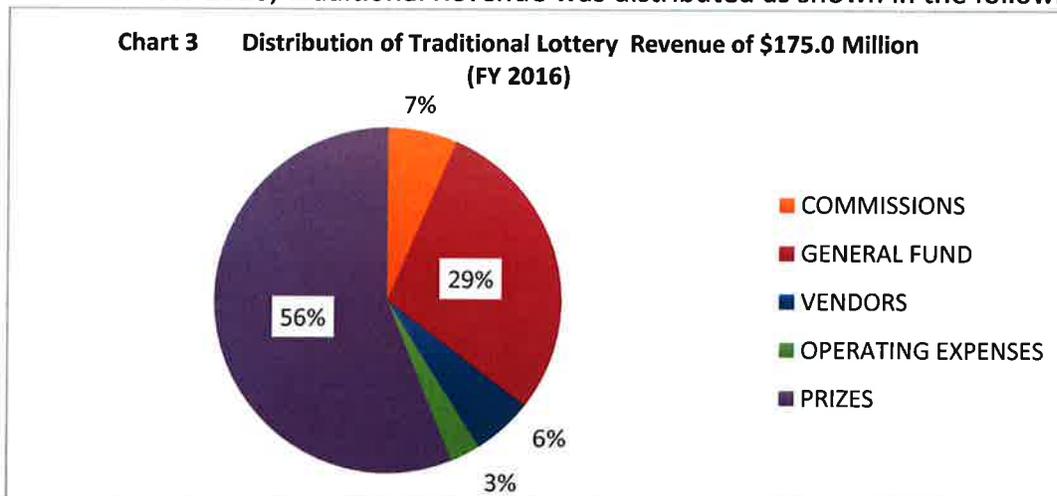
- Continually review security related areas and policies to ensure compliance (physical, information, and data).
- Conduct regular review and mock tests of the Disaster Recovery Plan.
- Conduct UAT for traditional draw gaming system changes.
- Test the Disaster Recovery site in Lanham, Maryland, on a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

FINANCIAL INFORMATION

The management discussion and analysis section starting on page 30 should also be read for an overview of the financial results.

REVENUE DISTRIBUTION:

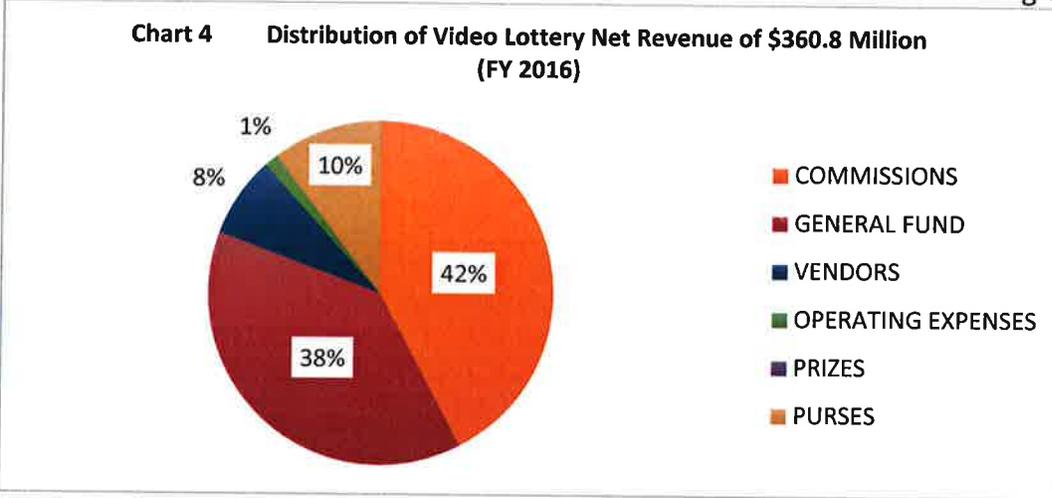
For Fiscal Year 2016, Traditional Revenue was distributed as shown in the following charts:



Source: Lottery Internal Records

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

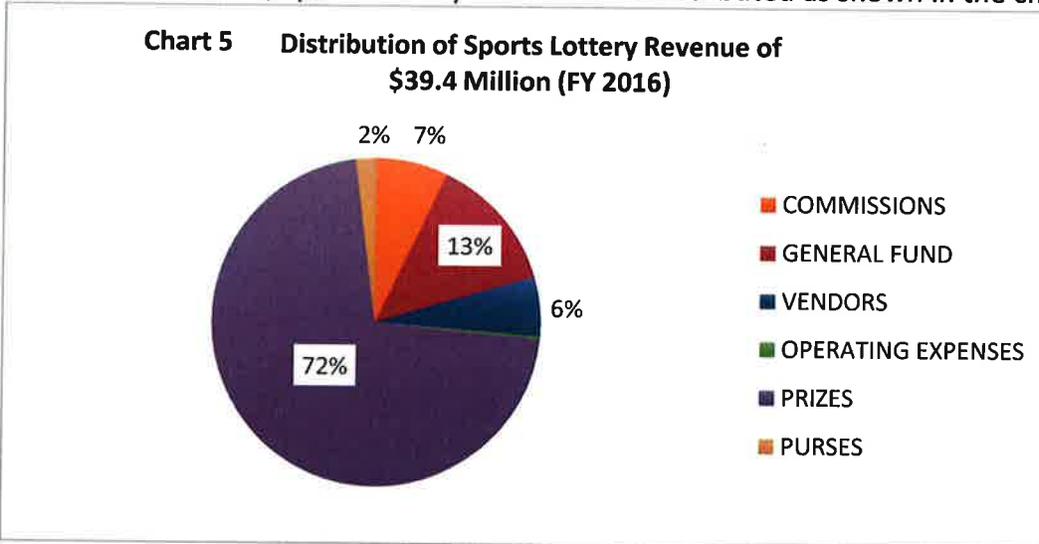
For Fiscal Year 2016, Video Revenue were distributed as shown in the following charts:



Source: Lottery Internal Records

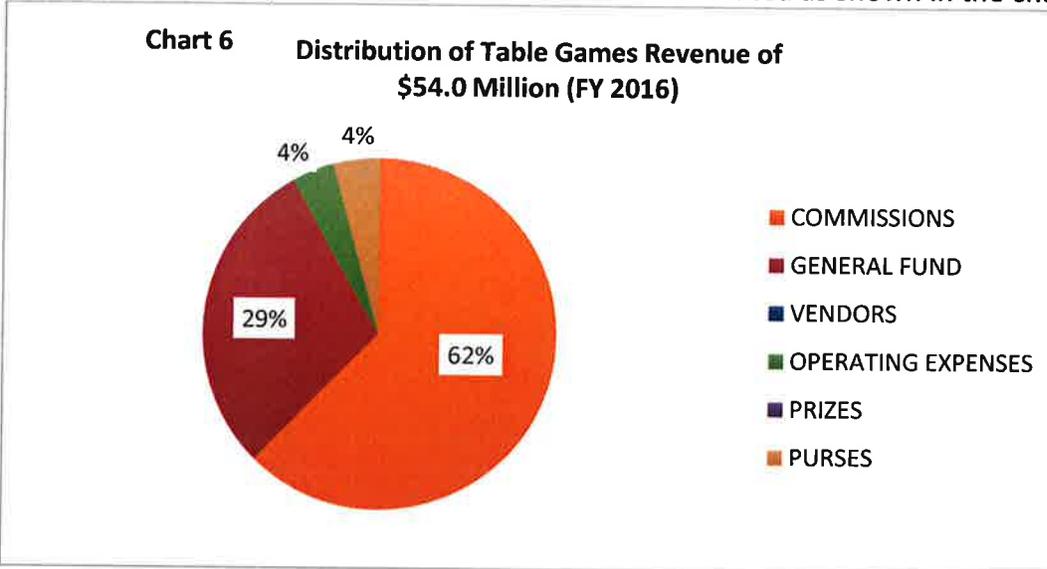
Balances include administrative expenses that have been allocated proportionately to video lottery and charitable gaming venues. Video expired credits and license fees are not included.

For Fiscal Year 2016, Sports Lottery Revenue was distributed as shown in the charts below:



Source: Lottery Internal Records

For Fiscal Year 2016, Table Games Revenue were distributed as shown in the charts below:



Source: Lottery Internal Records

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

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

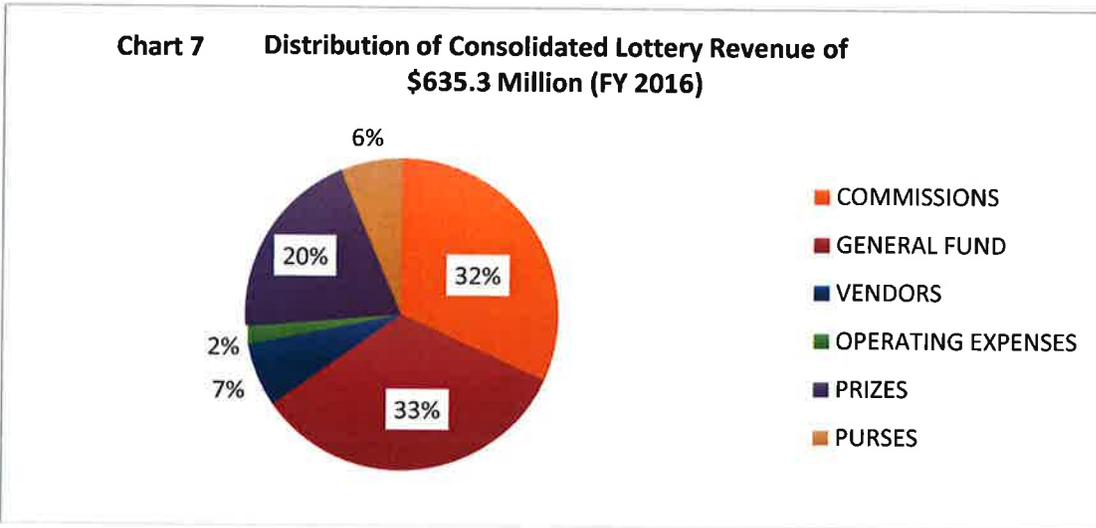
- Public and higher education
- Health and social services
- Public safety
- Judicial and corrections
- Child, youth and family services

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

In addition to the above contribution to the State general fund, the Lottery's earnings also contribute directly to:

- The Department of Agriculture for horseracing purse increases and for funding the Standardbred Breeder's Program and the Certified Thoroughbred Program
- The Department of Health and Social Services for operating the Problem Gamblers' program

As seen from the chart below, when these distributions are added to the contributions made to the State general fund, the Lottery contributed 33 cents of every sales dollar to the State of Delaware in fiscal year 2016.



Source: Lottery Internal Records

INTERNAL CONTROL ENVIRONMENT:

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

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

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

- Maintaining highly secure lottery facilities and limiting access to them
- Providing for multiple drawing algorithms
- Hiring an independent CPA firm to test data and witness drawings
- Printing lottery tickets with special inks, dyes and security codes
- Having the central system provider's system of internal controls tested and certified by an independent CPA firm on an annual basis

- Having video lottery machines and software tested by an independent laboratory
- Performing background checks on retailers, agents, vendors and video lottery employees, and Delaware Lottery employees

BUDGETARY CONTROLS:

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

The Lottery also uses an internal "budget" for expense control and business management. This internal "budget" mirrors the budget submitted to the State in revenue generated and contribution to the State general fund. The internal "budget" consolidates certain detailed expense categories to reduce recording time and for better management. 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, 2016) in the event that the annuity issuers default on their obligations. Please see Notes 1 (h) and Note 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 (\$2.3 million at June 30, 2016). 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, 2015. This was the seventeenth consecutive year that the Lottery has achieved this prestigious award. A copy of the certificate for fiscal year 2015 can be seen on Page 26 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 2016 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

A handwritten signature in blue ink, appearing to read "Vernon A. Kirk".

Vernon A. Kirk
Director
Delaware State Lottery

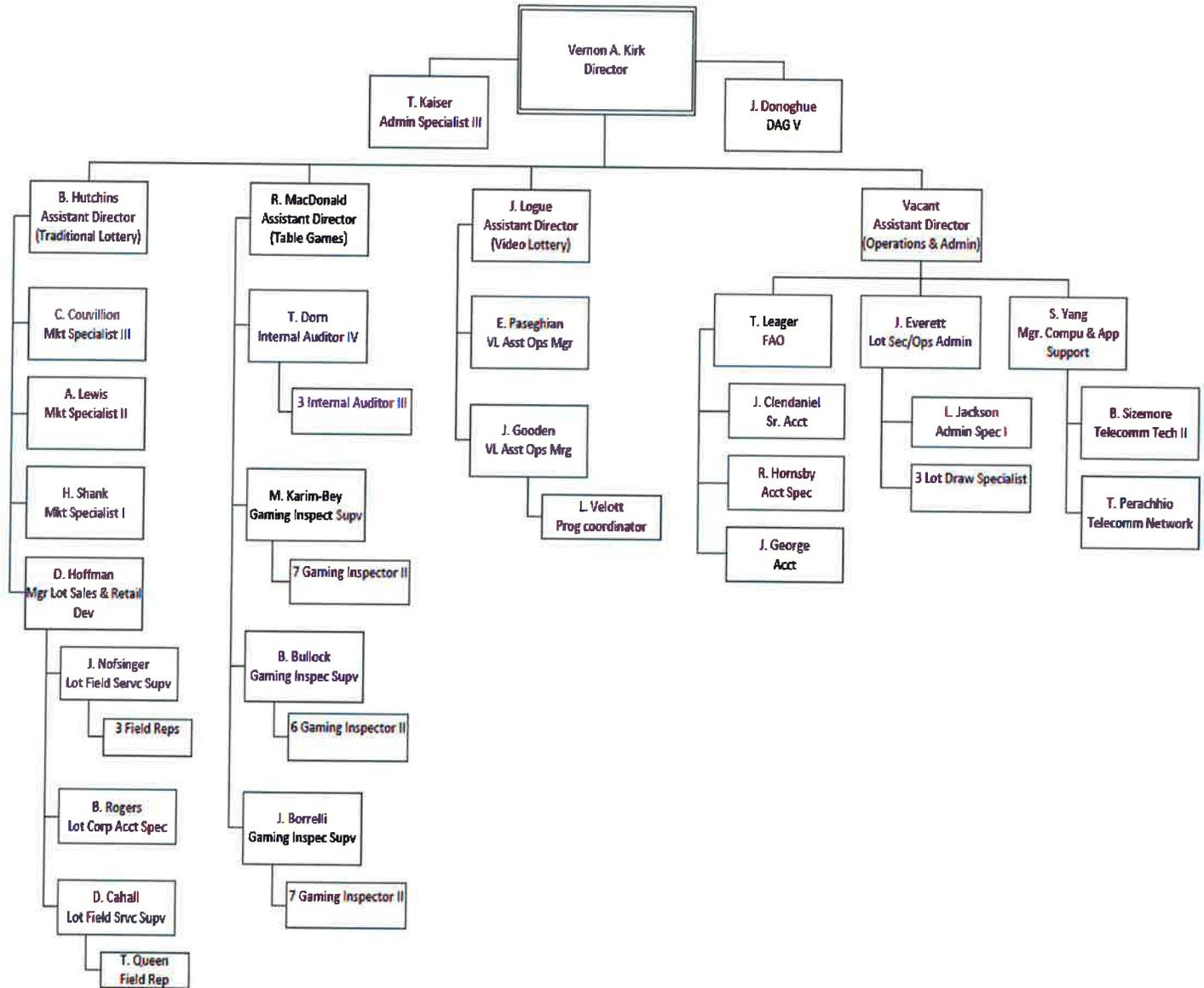
A handwritten signature in blue ink, appearing to read "Tina M. Leager".

Tina M. Leager
Fiscal Administrative Officer
Delaware State Lottery

DELAWARE STATE LOTTERY
PRINCIPAL OFFICIALS

Governor	Jack Markell
Secretary of Finance	Thomas J. Cook
Lottery Director	Vernon A. Kirk
Deputy Attorney General	Julie M. Donoghue
Assistant Director of Marketing & Sales	Barbara Hutchins
Assistant Director of Video Lottery	Jim Logue
Assistant Director of Table Games	Richard MacDonald
Fiscal Administrative Officer	Tina Leager

Delaware State Lottery Organization Chart





Government Finance Officers Association

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

Presented to

Delaware State Lottery

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

FINANCIAL SECTION



Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Delaware State Lottery (the Lottery) of the State of Delaware, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lottery as of June 30, 2016 and 2015, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1 (b) 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, 2016 and 2015, and the changes in its financial position, or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 30 through 35, schedule of Lottery's proportional share of net pension liability on page 54 and schedule of contributions on page 54 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.

Gunnip & Company LLP

October 12, 2016

DELAWARE STATE LOTTERY
Management's Discussion and Analysis
June 30, 2016 and 2015

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, 2016 and 2015, which should be read in conjunction with the Lottery's basic financial statements.

Overview of the Basic Financial Statements

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

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

The Statement of Revenue, Expenses, and Changes in Net Position show the result of the Lottery's total operations and reflect both operating and 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, 2016 and 2015

Condensed Net Position

Table 1
(In millions)

Assets	June 30		
	2016	2015	2014
Cash and investments	\$ 5.9	3.1	3.1
Accounts receivable, net of allowance of \$0.8, \$0.8, and \$0.8, respectively	6.2	13.3	12.4
Investments	0.1	0.1	0.1
Due from State of Delaware	4.7	4.5	2.6
Deposit with Multi-State Lottery	2.3	2.5	2.6
Total assets	<u>19.2</u>	<u>23.5</u>	<u>20.8</u>
Deferred outflows	<u>0.2</u>	<u>0.2</u>	<u>-</u>
Liabilities and Net Position			
Liabilities:			
Prizes liability, including \$0.1, \$0.1, and \$0.1, respectively, of prize installment obligation	4.9	6.8	4.8
Accounts payable and accrued liabilities	4.7	7.1	7.8
Due to the State of Delaware	1.5	1.6	1.6
Pension and OPEB liability	4.7	3.9	3.0
Multi-State Lottery reserve	2.3	2.5	2.6
Total liabilities	<u>18.1</u>	<u>21.9</u>	<u>19.8</u>
Deferred inflows	<u>0.3</u>	<u>0.8</u>	<u>-</u>
Net position:			
Unrestricted	<u>\$ 1.0</u>	<u>1.0</u>	<u>1.0</u>

The Lottery's accounting periods are predicated on a 4-4-5 week cycle except at year-end when the closing date includes additional days up to and including June 30. These extra days amounted to eight in 2014, nine in 2015, and only four in 2016. Fewer days of money not collected in fiscal year 2016 reflects the decrease in accounts receivable over fiscal year 2015. The additional day in fiscal year 2015 is reflected as additional accounts receivable over fiscal year 2014.

With the last full week in June ending on the 26th, it allowed four days before year end to make payments to vendors, therefore decreasing the liability from fiscal year 2015 to fiscal year 2016. There was a slight increase in liability from fiscal year 2014 to fiscal year 2015 mainly due to the pension liability calculation conforming to GASB Statement No. 68, *Accounting and Financial Reporting of Pension*. Since the Lottery is required to send all surplus funds to the State General Fund, any monies required to pay these liabilities would come from the State's General Fund. Respectively, the Due to the State of Delaware represents current year excess surplus funds due to the State's General Fund and due to other state agencies, including the Department of Health and Social Services and Department of Agriculture.

DELAWARE STATE LOTTERY
Management's Discussion and Analysis
June 30, 2016 and 2015

Revenue

Table 2
Revenue
(In millions)

	Year ended June 30		
	2016	2015	2014
Play 3	\$ 27.7	25.6	24.8
Play 4	22.6	21.1	19.9
Multi Win Lotto	4.6	4.2	4.2
Powerball	30.5	20.9	26.9
Hot Lotto	2.4	3.2	3.1
Mega Millions	9.5	10.8	12.6
Delaware Cash 5	-	0.5	0.9
Keno	8.0	6.7	5.2
Lucky for Life	4.0	2.3	-
Instant games	65.7	54.4	50.7
Traditional games revenue	175.0	149.7	148.3
Video lottery, net	360.8	357.5	363.4
I-Gaming	2.6	1.8	1.4
Video lottery expired jackpots and credit slips	0.3	0.3	0.4
Casino license fees	3.2	3.2	3.3
Sports lottery	39.4	37.9	31.5
Table games, net	54.0	51.5	52.5
Total revenue	\$ 635.3	601.9	600.8

Table 2 above compares revenue for each lottery game category. Total lottery revenue for fiscal year 2016 showed an increase over fiscal year 2015 by \$33.4 million or 5.5%. Fiscal year 2015 saw a slight increase over fiscal year 2014 by \$1.1 million or less than 1%.

Powerball and Mega Millions sales are typically driven by the size of the jackpot. Changes to the Powerball game in fiscal year 2016 provided larger jackpots, which allowed for a significant increase in Powerball sales. Powerball sales decreased in 2015 due to the limited number of higher jackpots during fiscal year 2014.

Instant game sales continue to increase, reporting another record sales year in this category. The Lottery offered a new \$25 higher price point ticket, proving the survey data that higher price points with higher prize levels were more attractive to the playing public.

Video lottery, net proceeds, for fiscal year 2016 showed a \$3.3 million, or 1%, increase over fiscal year 2015. Fiscal year 2015 saw a decrease in net proceeds over fiscal year 2014.

Sports lottery and Keno showed an increase in revenue in fiscal year 2016 over fiscal year 2015 of \$2.8 million or 6.2%. Continued expansion of these products throughout our retail network during fiscal year 2016 and fiscal year 2015 has led to more awareness to the players of these products and a boost to the sales.

Table games revenue had an increase of \$2.5 million, or 4.9% in fiscal year 2016 over fiscal year 2015. The tracks added more promotions and poker tournaments throughout the state which offered more play in fiscal year 2016. Table games showed a decline in fiscal year 2015 over fiscal year 2014 of \$1.0 million. Added competition in 2015 from surrounding states accounted for the slight decline in table games revenue.

DELAWARE STATE LOTTERY
Management's Discussion and Analysis
June 30, 2016 and 2015

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, implementation of Keno, and authorizing Delaware to conduct internet gaming for both traditional and casino style online wagering, sales from these products have continued to grow. In fiscal year 2016, the Lottery expanded the sports retail locations from 85 to 102 retailers, added additional Keno retailers, and expanded internet gaming on mobile devices.

Cost of Games

Table 3

Cost of Games

(In millions and as a percentage of revenue)

	Year ended June 30					
	2016		2015		2014	
Commission expense	\$ 202.4	32.0%	\$ 198.0	32.9%	\$ 192.4	32.0%
Gaming vendor fees and costs	41.8	6.6%	40.3	6.7%	38.1	6.3%
Prize expense	126.5	20.0%	109.0	18.1%	102.0	17.1%
Total cost of games	\$ 370.7		\$ 347.3		\$ 332.5	

Table 3 above compares the cost of games for the last three years. Commission expense includes payments to lottery retailers for selling and cashing traditional and sports lottery tickets, and commissions to casinos for the operation of video lottery, internet gaming, sports lottery, and table games. An increase in commissions in fiscal year 2016 over fiscal year 2015 of \$4.4 million, or 2.2% is due to an overall increase in revenue over last year. An increase in commissions from fiscal year 2014 to fiscal 2015 of \$5.6 million, or 2.9%, is due to the increase in revenue from sports retailers and the instant games.

Gaming vendor fees and costs include the cost of the central system used to monitor and collect pertinent data for the traditional draw games and the video lottery system, the instant games supplier fees, the cost of leasing video lottery terminals and franchise video games, and the cost incurred by internet gaming for fees and website maintenance. Gaming vendor fees increased \$1.5 million, or 3.7% in fiscal year 2016 over fiscal year 2015 primarily due to the increased revenue. Gaming vendor fees increased \$2.2 million, or 5.8%, in fiscal year 2015 over fiscal year 2014 due to an increase in instant and sports sales and the addition of new video vendor contract fees that took affect half way through fiscal year 2014.

DELAWARE STATE LOTTERY
Management's Discussion and Analysis
June 30, 2016 and 2015

Prize Expense, Net of Reversions

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

	Year ended June 30		
	2016	2015	2014
Play 3	\$ 14.8	13.1	11.8
Play 4	10.3	11.4	10.4
Multi Win Lotto	2.8	2.6	2.7
Powerball	14.9	10.0	13.0
Hot Lotto	1.2	1.6	1.5
Mega Millions	4.5	5.3	6.3
Delaware Cash 5	—	0.2	0.5
Keno	4.9	4.2	3.2
Lucky for Life	2.4	1.5	—
Sports lottery	28.2	23.7	20.1
Instant games	42.5	35.4	32.5
Total prize expense	\$ 126.5	109.0	102.0

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. Overall prize expense for the instant game product category is controllable for the most part, by printing a predetermined number and value of winning tickets for each instant game.

Prize expense includes the costs for winning tickets for traditional and sports lottery. Prize expense for fiscal year 2016 versus fiscal year 2015 increased \$17.5 million or 16%. Fiscal year 2016 produced a higher prize expense for instant due to adding more higher-price tickets with a higher payout percentage. Sports lottery winners vary from year to year due to the unpredictability of the outcome of professional football. The payout percentage increased over 9% resulting in a higher prize expense for fiscal year 2016 over fiscal year 2015. Fiscal year 2015 showed an increase in prize expense over fiscal year 2014 of \$7.0 million. Sports and Instant games accounted for \$6.5 million of this increase. The sales increase in sports lottery and instant games resulted in an increase in winners.

DELAWARE STATE LOTTERY
Management's Discussion and Analysis
June 30, 2016 and 2015

Operating Expenses

Table 5
Operating Expenses
(In millions)

	Year ended June 30		
	2016	2015	2014
Operating expenses	\$ 10.7	10.6	10.9

Operating expenses remained relatively unchanged from fiscal year 2014 through fiscal year 2016. The decrease in operating expenses fiscal year 2014 to fiscal year 2016 was due to the efforts of the Lottery office to reduce spending.

Nonoperating Expenses

Table 6
Nonoperating Expenses
(In millions)

	Year ended June 30		
	2016	2015	2014
Contributions to the State of Delaware:			
Standardbred Breeder's Program	\$ 3.0	3.0	3.0
Certified Thoroughbred Program	1.0	1.0	1.0
Department of Agriculture Purses	36.8	36.6	37.1
Department of Health & Social Services	1.6	1.7	1.7
State of Delaware - General Fund	211.5	201.7	214.6
Total nonoperating expenses	\$ 253.9	244.0	257.4

Fiscal year 2016 showed an overall increase over fiscal year 2015 in nonoperating expenses, which is relative to the increase in revenue. Decreases in contributions to the State of Delaware in fiscal year 2015 over fiscal year 2014 were attributed to the change in the law for the State's share of video lottery proceeds. The State's share of video proceeds is taken after deducting 75% of the vendor costs. Previously, the State's share was based solely on the video net proceeds. This change resulted in a \$9.9 million reduction of contributions to the State of Delaware General Fund for fiscal year 2015.

DELAWARE STATE LOTTERY
Basic Statements of Net Position
June 30, 2016 and 2015

Assets	2016	2015
Current assets:		
Cash and investments	\$ 5,921,521	3,133,928
Accounts receivable, net of allowance of \$791,748 and \$791,748, respectively	6,177,938	13,295,112
Investments – restricted for payment of prize liabilities	30,000	30,000
Due from the State of Delaware	4,762,963	4,462,770
Total current assets	16,892,422	20,921,810
Noncurrent assets:		
Investments – restricted for payment of prize liabilities	19,903	49,781
Deposit Multi-State Lottery	2,316,299	2,515,559
Total non-current assets	2,336,202	2,565,340
Total assets	19,228,624	23,487,150
Deferred outflows	242,448	244,307
Liabilities and Net Position		
Current liabilities:		
Prizes liability, including \$30,000 for both years, of prize installment obligations	4,923,651	6,772,743
Accounts payable and accrued liabilities	4,704,095	7,076,299
Due to the State of Delaware	1,501,713	1,609,998
Total current liabilities	11,129,459	15,459,040
Noncurrent liabilities:		
Multi-State Lottery reserve	2,316,299	2,515,559
Prize installment obligations, noncurrent	19,903	49,781
Pension and OPEB liability	4,669,812	3,874,639
Total noncurrent liabilities	7,006,014	6,439,979
Total liabilities	18,135,473	21,899,019
Deferred inflows	335,599	832,438
Net position:		
Unrestricted	\$ 1,000,000	1,000,000

See accompanying notes to basic financial statements.

DELAWARE STATE LOTTERY

Basic Statements of Revenue, Expenses, and Changes in Net Position
Years ended June 30, 2016 and 2015

	2016	2015
Revenue:		
Video lottery, net	\$ 360,771,884	357,492,447
Video lottery expired jackpots and credit slips	309,340	252,068
Casino license fees	3,199,100	3,220,300
I-Gaming Video	2,559,090	1,773,149
Sports lottery	39,398,130	37,857,048
Table games, net	54,010,328	51,455,977
Draw games	109,381,171	95,395,052
Instant games	65,659,766	54,422,554
Total revenue	635,288,809	601,868,595
Cost of games:		
Video lottery commissions	152,478,747	150,989,347
Prize costs, net of reversions	126,503,755	108,964,095
Gaming vendor fees and costs	41,815,118	40,301,237
Instant and draw games commissions	11,399,240	9,675,383
Sports lottery commissions	2,792,770	3,324,221
Table games commissions	35,700,827	34,012,401
Total cost of games	370,690,457	347,266,684
Gross margin	264,598,352	254,601,911
Operating expenses:		
Advertising and promotions	3,193,949	3,057,702
Payroll and related benefits	5,905,596	5,877,778
Other general and administrative	1,634,149	1,704,982
Total operating expenses	10,733,694	10,640,462
Operating income	253,864,658	243,961,449
Nonoperating expenses:		
Delaware Standardbred Breeder's Program	3,000,000	3,000,000
Delaware Certified Thoroughbred Program	1,000,000	1,000,000
State of Delaware	249,864,659	239,961,449
Total nonoperating expenses	253,864,659	243,961,449
Change in net position	-	-
Net position at beginning of year	1,000,000	1,000,000
Net position at end of year	\$ 1,000,000	1,000,000

See accompanying notes to basic financial statements.

DELAWARE STATE LOTTERY
Basic Statements of Cash Flows
Years ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Receipts from customers	\$ 642,405,983	600,991,396
Payments to vendors for goods and services	(46,348,273)	(45,354,466)
Payments to employees for services	(5,842,743)	(5,945,984)
Payments for prizes	(128,382,725)	(106,964,131)
Payments for commissions	(205,101,583)	(198,249,368)
Net cash provided by operating activities	256,730,659	244,477,447
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	(249,972,944)	(240,497,006)
Net cash used in noncapital financing activities	(253,972,944)	(244,497,006)
Cash flows from investing activity:		
Proceeds from maturity of investments	29,878	34,257
Net cash provided by investing activity	29,878	34,257
Net increase cash and investments	2,787,593	14,698
Cash and investments at beginning of year	3,133,928	3,119,230
Cash and investments at end of year	\$ 5,921,521	3,133,928
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 253,864,659	243,961,449
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
Accounts receivable, net	7,117,174	(877,199)
Prizes liability	(1,878,970)	1,999,964
Accounts payable and accrued liabilities	(2,372,204)	(606,767)
Net cash provided by operating activities	\$ 256,730,659	244,477,447

See accompanying notes to basic financial statements.

DELAWARE STATE LOTTERY
Notes to Basic Financial Statements
June 30, 2016 and 2015

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

(b) Reporting Entity

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

(c) Basis of Presentation

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

(d) New Accounting Pronouncements

In February of 2015, the Government Accounting Standards Board (GASB) issued Statement No. 72 *Fair Value Measurement and Application*. The objective of this Statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes. The adoption of Statement No. 72 had no impact on the Lottery's financial statements.

In June of 2015, the GASB issued Statement No. 76 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Government*. This Statement redefines the hierarchy of generally accepted accounting principles (GAAP). The adoption of Statement No. 76 had no impact on the Lottery's financial statements.

(e) Deferred Outflows and Inflows of Resources

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

DELAWARE STATE LOTTERY
Notes to Basic Financial Statements
June 30, 2016 and 2015

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

(f) 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 nonprize costs during the next month.

(g) Accounts Receivable

Accounts receivable consist primarily of unsettled balances due to the Lottery from the racetracks for video lottery and table games, and from retailers, which principally include grocery and convenience stores serving as the primary distribution channel for traditional lottery sales (drawing and instant games) to the general public.

	2016	2015
Receivables:		
Accounts	\$ 6,969,686	14,086,860
Total receivables	6,969,686	14,086,860
Allowance for doubtful accounts	(791,748)	(791,748)
Total receivables, net	\$ 6,177,938	13,295,112
Amounts not scheduled for collection during the subsequent year	\$ —	—

(h) 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.

(i) Capital Assets

All purchases of capital assets, mostly computer equipment and furniture and fixtures, in excess of \$25,000 are capitalized and carried at cost. Depreciation is computed by using the straight-line method over the estimated useful life of 10 years. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in operations in the period of disposal. During the fiscal year ending June 30, 2015 the Lottery had no new purchases of capital assets and had properly disposed of all old capital assets. As of June 30, 2016, the Lottery does not have any capital assets.

DELAWARE STATE LOTTERY
Notes to Basic Financial Statements
June 30, 2016 and 2015

(j) Revenue Recognition

Revenue from drawing 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

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.

(k) Prize Obligations

Prize obligations for the online 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, Hot Lotto, and Mega Millions, 50% of the revenues are allocated to the prize pool.

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

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.

(l) 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, 2016. Employees earn from 9.5 to 13.25 hours of vacation leave per month depending on years of service. The employee or his or her estate is paid for unused vacation upon termination of employment. Employees earn 9.5 hours of sick leave per month. The Lottery's obligation for sick leave credit is a maximum of 337.5 hours. As of June 30, 2016 and 2015, the Lottery had liabilities of \$235,398 and \$219,756 for accrued vacation and \$226,769 and \$209,957 for accrued sick leave, respectively.

DELAWARE STATE LOTTERY
Notes to Basic Financial Statements
June 30, 2016 and 2015

(m) Operating and Nonoperating Expenses

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

(n) Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year's financial statements.

(2) Cash and Investments

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

Cash and investment balances consisted of the following:

	June 30	
	2016	2015
On hand and in bank	\$ 4,346,952	387,451
Pooled cash and investments	1,574,569	2,746,477
Total cash balances	\$ 5,921,521	3,133,928

Custodial Credit Risk

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

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

- U.S. government securities;
- U.S. government agency securities;
- Federal Home Loan Board letters of credit;

DELAWARE STATE LOTTERY
Notes to Basic Financial Statements
June 30, 2016 and 2015

- 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, 2016 and 2015, 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, 2016 and 2015, the total bank balance of cash in all bank accounts was \$4,346,952 and \$387,451, 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, 2016) in the event that annuity issuers default on their obligations. Lottery investments as of June 30, 2016 and 2015 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.

(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, 2016, 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:

<u>Insurance company</u>	<u>Total annuity contract values</u>	<u>Concentration</u>	<u>A.M. Best rating</u>
New York Life Insurance Company	\$ 49,903	100.00	AAA

(4) Capital Assets

During the year ending June 30, 2016 the Lottery did not have any new purchases of capital assets and properly disposed of all old capital assets in fiscal year 2015. There is currently no depreciation expense.

DELAWARE STATE LOTTERY
Notes to Basic Financial Statements
June 30, 2016 and 2015

(5) Prize Obligations

The following is a reconciliation of changes in the prize liability account, which includes the present value of prize installment obligations, for the fiscal years ended June 30, 2016 and 2015:

	2016	2015
Prize obligations, beginning of year	\$ 6,822,524	4,822,560
Prize payments	(128,382,725)	(106,964,131)
Prize costs, net of reversions	126,503,755	108,964,095
Prize obligations, end of year	\$ 4,943,554	6,822,524

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, 2016, during the next two years, are as follows:

2017		\$ 30,000
2018		20,000
	Total payments for unpaid prize installment obligations	50,000
	Less imputed interest rate (0.2%)	(97)
	Present value of prize installment obligations	\$ 49,903

(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 and 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.

The amount the Lottery had on deposit with the MUSL, as of June 30, 2016 and 2015, equaled \$2,316,299 and \$2,515,559, respectively. These amounts are also reported as a liability on the Lottery's balance sheet because they represent the amount to be paid to the State's General Fund upon separation from the MUSL, if the MUSL is not required to use any portion of the Lottery's reserves held by the MUSL.

DELAWARE STATE LOTTERY
Notes to Basic Financial Statements
June 30, 2016 and 2015

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

In March 1998, an amendment to the Legislation was passed by the General Assembly that established the Delaware Standard 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 year 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 are recorded as a reduction to video lottery commissions and/or accounts payable and is then transferred by the Lottery to the respective programs.

(8) Contributions to the State of Delaware

As required, under the Legislation, net position of the Lottery may not exceed \$1,000,000; therefore, the Lottery periodically transfers surplus funds to the State in accordance with the Legislation. For the years ended June 30, 2016 and 2015, the Lottery made the following contributions to the State.

	June 30	
	2016	2015
Amounts transferred and to be transferred to the State for the fiscal year:		
General Fund	\$ 211,461,338	201,715,829
Department of Health and Social Services	1,600,897	1,623,208
Department of Agriculture	36,802,424	36,622,412
	\$ 249,864,659	239,961,449

DELAWARE STATE LOTTERY
Notes to Basic Financial Statements
June 30, 2016 and 2015

(9) Revenue and Expenses by Game

The following revenue was recognized:

	Year ended June 30	
	2016	2015
Draw games:		
Play 3 Day	\$ 10,732,472	9,796,329
Play 3 Night	16,970,205	15,749,004
Play 4 Day	8,493,811	7,818,263
Play 4 Night	14,131,074	13,282,140
Multi Win Lotto	4,634,945	4,196,545
Powerball	30,445,066	20,946,673
Hot Lotto	2,365,068	3,233,827
Mega Millions	9,536,437	10,821,285
Delaware Cash 5	-	547,120
Keno	8,038,051	6,665,168
Lucky for Life	4,034,042	2,338,698
Total draw games	<u>109,381,171</u>	<u>95,395,052</u>
Instant games	<u>65,659,766</u>	<u>54,422,554</u>
Total traditional lottery	175,040,937	149,817,606
Video lottery, net	360,771,884	357,492,447
I-Gaming video lottery, net	2,559,090	1,773,149
Video lottery expired jackpots and credit slips	309,340	252,068
Casino license fees	3,199,100	3,220,300
Sports lottery	39,398,130	37,857,048
Table games, net	<u>54,010,328</u>	<u>51,455,977</u>
Total revenue	<u>\$ 635,288,809</u>	<u>601,868,595</u>

DELAWARE STATE LOTTERY
Notes to Basic Financial Statements
June 30, 2016 and 2015

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

	Video lottery net	Igaming video, net	Sports lottery	Table games, net	Draw games	Instant	Total
Year ended June 30, 2016:							
Revenue	\$ 360,771,884	2,559,090	39,398,130	54,010,328	109,381,171	65,659,766	631,780,369
Other income	3,508,440	—	—	—	—	—	3,508,440
Prize costs, net of reversions	—	—	28,186,445	—	55,831,551	42,485,759	126,503,755
	364,280,324	2,559,090	11,211,685	54,010,328	53,549,620	23,174,007	508,785,054
Commissions expense	152,478,747	—	2,792,770	35,700,827	6,836,328	4,562,912	202,371,584
Contribution margin per game	\$ 211,801,577	2,559,090	8,418,915	18,309,501	46,713,292	18,611,095	306,413,470
Game vendor fees	27,593,315	1,956,837	2,309,647	—	6,277,183	3,678,136	41,815,118
Gross margin	184,208,262	602,253	6,109,268	18,309,501	40,436,109	14,932,959	264,598,352

	Video lottery net	Igaming video, net	Sports lottery	Table games, net	Draw games	Instant	Total
Year ended June 30, 2015:							
Revenue	\$ 357,492,447	1,773,149	37,857,048	51,455,977	95,395,052	54,422,554	598,396,227
Other income	3,472,368	—	—	—	—	—	3,472,368
Prize costs, net of reversions	—	4,177	23,742,870	—	49,836,876	35,380,172	108,964,095
	360,964,815	1,768,972	14,114,178	51,455,977	45,558,176	19,042,382	492,904,500
Commissions expense	150,989,347	—	3,324,221	34,012,401	5,781,410	3,893,973	198,001,352
Contribution margin per game	\$ 209,975,468	1,768,972	10,789,957	17,443,576	39,776,766	15,148,409	294,903,148
Game vendor fees	27,108,795	1,813,139	2,847,451	—	5,472,284	3,059,568	40,301,237
Gross margin	182,866,673	(44,167)	7,942,506	17,443,576	34,304,482	12,088,841	254,601,911

(10) Payroll-Related and Other Benefits

All Lottery personnel are employees of the State of Delaware and are covered by pension, health insurance, and other employee benefit programs administered by agencies of the State. During fiscal year 2016 and fiscal year 2015, the Lottery incurred \$5,905,596 and \$5,877,778, 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, 2016 and 2015

(11) Pension and Other Postemployment Benefits

(a) Pension

The Lottery contributes to the State Employees' Pension Plan (the Plan) established by the State to provide benefits for state employees. The Plan is a cost-sharing multiple employer defined benefit pension plan established in the Delaware Code. The Plan prepares separate financial statements. All details of the Plan can be obtained by writing to the State Board of Pension Trustees and Office of Pensions, McArdle Building, Suite #1, 860 Silver Lake Boulevard, Dover, Delaware 19904-2402.

Benefits Provided

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

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

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

Employee Contributions

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

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

Employer Contributions

Employer contributions are determined by the Board of Pension Trustees. For the year ended June 30, 2016, the rate of the employer contribution was 9.49 percent of covered payroll. The Lottery's employer contributions for the years ended June 30, 2016 and 2015 was \$242,448 and \$244,307, respectively. The Lottery's required contributions equaled actual contributions made for the years ended June 30, 2016 and 2015.

DELAWARE STATE LOTTERY
Notes to Basic Financial Statements
June 30, 2016 and 2015

Net Pension Liability and Expense

At June 30, 2016, the Lottery reported a net pension liability of \$911,588 for its proportionate share of the net pension liability of the State of Delaware. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the Plan's total pension liability as of June 30, 2014 to June 30, 2015. At June 30, 2015, the Lottery's proportion was 0.1370 percent, which was a decrease of 0.004 percent from its proportion measured as of June 30, 2014. For the year ended June 30, 2016, the Lottery recognized a pension expense of \$185,791.

Deferred Outflows and Inflows of Resources

At June 30, 2016, the Lottery reported deferred outflows of resources of \$242,448 for its contributions subsequent to the measurement date, which will be recognized as a reduction of the net pension liability in the following year.

At June 30, 2016, the Lottery reported deferred inflows of resources related to pensions from the following sources:

	Measurement Period ending June 30	Amorti- zation Period	Beginning of Year Balance	Additions	Deduction s	End of Year Balance
Difference between expected and actual experience.	2016	6 years	\$ 0	(24,538)	4,090	(20,448)
Change in Proportion	2015	6 years	(9,228)	0	2,307	(6,921)
	2016	6 years		<u>(36,883)</u>	<u>7,377</u>	<u>(29,506)</u>
			(9,228)	(36,883)	9,684	(36,427)
Net Difference between projected and actual earnings on pension plan investment.	2015	5 years	(823,210)	0	(205,803)	(617,407)
	2016	5 years		<u>423,354</u>	<u>84,671</u>	<u>338,683</u>
			<u>(823,210)</u>	<u>423,354</u>	<u>(121,132)</u>	<u>(278,724)</u>
			<u>\$ (832,438)</u>	<u>361,933</u>	<u>(107,358)</u>	<u>(335,599)</u>

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

Year Ending June 30	
2017	\$ 134,905
2018	134,905
2019	134,904
2020	(73,205)
2021	4,090
	<u>\$ 335,599</u>

DELAWARE STATE LOTTERY
Notes to Basic Financial Statements
June 30, 2016 and 2015

Actuarial Assumptions

The total pension liability as of June 30, 2015 measurement date was determined by an actuarial valuation as of June 30, 2014, with update procedures used to roll forward the total pension liability to June 30, 2015. These actuarial valuations used the following actuarial assumptions:

Investment Return -7.2%, includes inflation at 3.0%

Salary Increases - 3.5% to 11.5%, includes inflation at 3.0%

Mortality rates were based on the Sex distinct RP-2000 Combined Mortality Table projected to 2015 using scale AA for males or females, as appropriate, for mortality improvement.

The total pension liabilities are measured based on assumptions pertaining to the interest rates, inflation rates, and employee demographic behavior in future years. The assumptions used were based on the results of an actuarial experience study conducted in 2011. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the actual experience deviates, the larger the impact on future financial statements.

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

<u>Asset class</u>	<u>Long-term expected rate of return</u>
Domestic equity	5.7%
International equity	5.7%
Fixed income	2.0%
Alternative investments	7.8%
Cash and equivalents	-

Discount Rate

The discount rate used to measure the total pension liability was 7.20%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at rates determined by the Board of Pension Trustees, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments

DELAWARE STATE LOTTERY
Notes to Basic Financial Statements
June 30, 2016 and 2015

of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the net pension liability, calculated using the discount rate of 7.20%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.20%) or one percentage point higher (8.20%) than the current rate:

	1% decrease 6.20%	Current discount rate 7.20%	1% increase 8.20%
Lottery's proportionate share of the net pension liability (asset)	<u>\$ 2,059,192</u>	<u>\$ 911,588</u>	<u>\$ (433,858)</u>

Pension Plan Fiduciary Net Position

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

Net Position – Pension

By implementing the requirements of GASB Statement No. 68 and GASB Statement No. 71 as of July 1, 2014, the Lottery recognized deferred outflows, net pension liability, and deferred inflows, which affects the Lottery's net position. Legislation dictates that the Lottery can only maintain a net position of \$1,000,000; therefore any such changes are reflected as an amount Due from the State.

(b) Other Postemployment Benefits

The Lottery accounts for and reports the value of its future obligation to pay 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. The Lottery also shows the OPEB due from the State since by design in the Delaware Code the Lottery is not to keep more than one million dollars on hand. All other proceeds are sent to the General Fund to be kept on the State of Delaware's net position. All full-time Lottery employees are covered under the State of Delaware 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.

DELAWARE STATE LOTTERY
Notes to Basic Financial Statements
June 30, 2016 and 2015

The OPEB Trust is a single-employer defined-benefit plan and provides retirement medical coverage to 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. The 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. There are currently 32,854 active eligible plan members. The Lottery has 61 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 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, 2015	\$ 2,174.5	3,356.6
Annual required contribution	425.6	790.2
Interest on net OPEB Obligation	92.4	171.6
Adjustment to required contribution	(83.9)	(155.8)
Net OPEB obligation before contributions	2,608.6	4,162.6
Employer contributions	217.8	404.4
Net OPEB obligation as of June 30, 2016	\$ 2,390.8	3,758.2

	State total	Lottery allocation
	(In millions)	(In thousands)
Net OPEB obligation as of June 30, 2014	\$ 1,988.6	3,000.2
Annual required contribution	404.4	775.3
Interest on net OPEB Obligation	84.5	161.9
Adjustment to required contribution	(76.7)	(147.0)
Net OPEB obligation before contributions	2,400.8	3,790.4
Employer contributions	226.3	433.8
Net OPEB obligation as of June 30, 2015	\$ 2,174.5	3,356.6

DELAWARE STATE LOTTERY
Notes to Basic Financial Statements
June 30, 2016 and 2015

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

<u>Fiscal year ended</u>	<u>Annual OPEB cost</u>	<u>Percentage of annual OPEB cost contributed</u>	<u>Net OPEB obligation</u>
6/30/2014	\$789,100	48.9%	\$3,000,272
6/30/2015	790,200	54.9%	3,356,630
6/30/2016	806,000	50.2%	3,758,244

(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, 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 contract the Lottery is committed to 5.4371% of draw game sales, 9.95% of Keno sales, 1% of video net gaming revenue, and 25% of net win for charitable gaming video machines to its central system provider through February 2018. For the instant sales and services contract, the Lottery is committed to 5.6% of instant sales through January 2018. For video lottery terminals, the lottery is committed to a range of 5.5% to 7.0% to video lottery vendors through October 28, 2018. For video lottery terminals classified as electronic table games (ETG), the Lottery is committed to a range of 7% to 20% through March 15, 2021. For sports lottery, the Lottery is committed to 15.625% of track venue net revenue and 25% of retailer net revenue through the 2018-2019 sports season.

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

Proportionate Share of Net Pension Liability

Actuarial valuation date	<u>6/30/2015</u>	<u>6/30/2014</u>
Lottery's proportion of the net pension liability	0.1370%	0.1407%
Lottery's proportion of the net pension liability - dollar value	\$ 911,588	\$ 518,009
Lottery's covered employee payroll	\$ 2,555,038	\$ 2,589,613
Lottery's proportionate share of the net pension liability as a percentage of its covered employee payroll	35.7%	20.0%
Plan fiduciary net position as a percentage of the total pension liability	92.7%	95.8%

Contributions

Contractually required contributions	\$ 244,307	\$ 245,999
Contributions in relation to the contractually required contributions	\$ 244,307	\$ 245,999
Contribution excess (deficit)	<u>\$ -</u>	<u>\$ -</u>
Lottery's covered employee payroll	\$ 2,555,038	\$ 2,589,613
Contribution as a percentage of covered employee payroll	9.56%	9.50%

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

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

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.

Delaware Demographics and Economic Information

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

Financial Trend Data

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

Revenue Capacity Data and Operation Information

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

Delaware Lottery Historical Data

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

U.S. Lottery Statistics

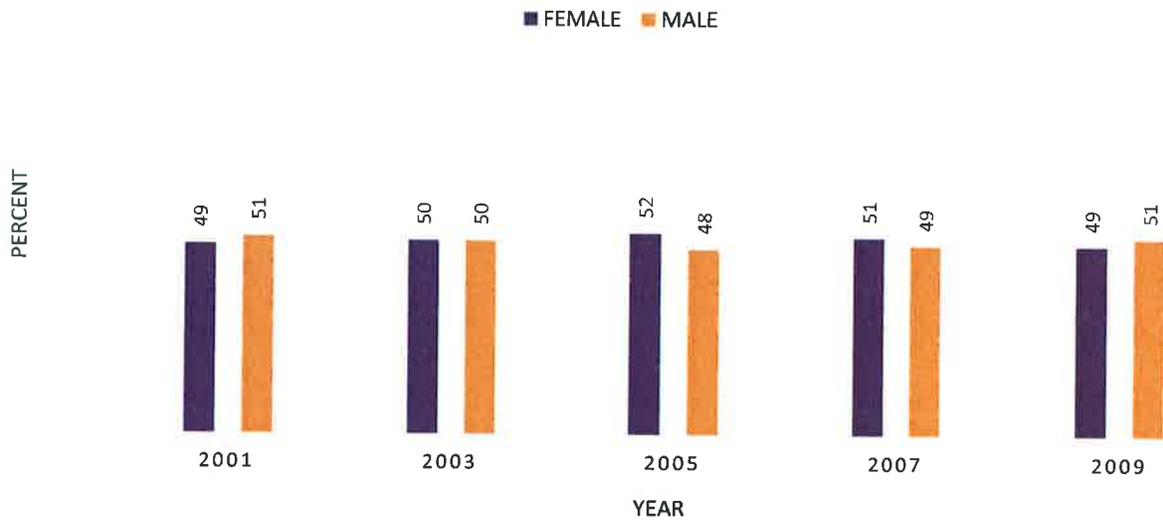
Please see Exhibits XX to XXII that shows statistics on the U.S. Lotteries

Debt Capacity Data

The Delaware State Lottery has no Legislative debt limits.

EXHIBIT I

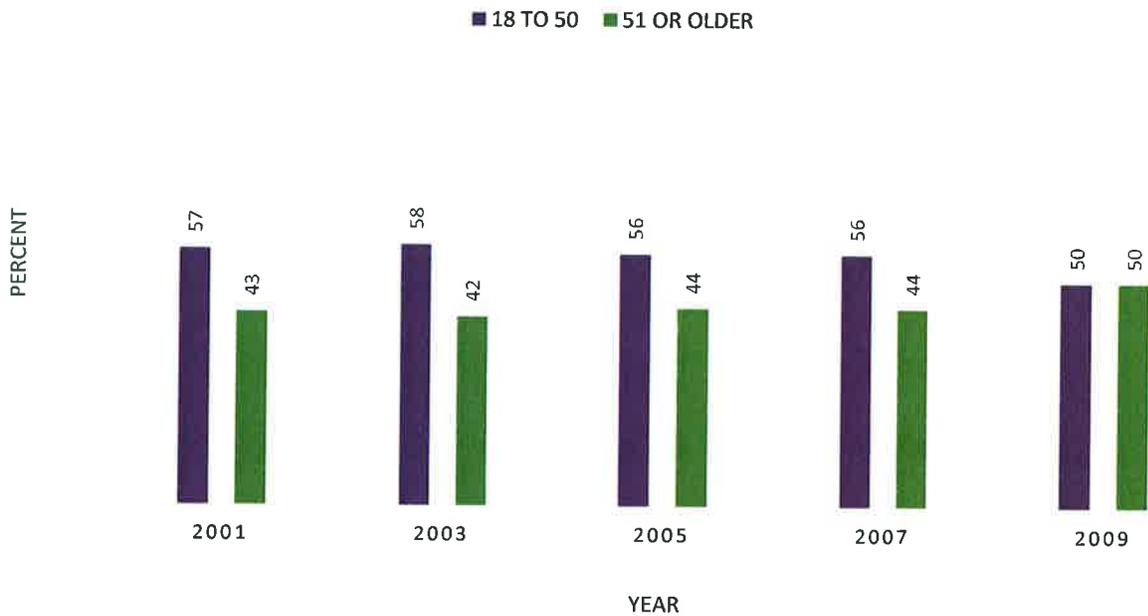
GENDER PROFILE OF DELAWARE LOTTERY PLAYERS



Source: Bi-annual DE Lottery Resident Survey
Due to budget constraints, no survey conducted since 2009.

EXHIBIT II

AGE PROFILE OF DELAWARE LOTTERY PLAYERS



Source: Bi-annual DE Lottery Resident Survey
Due to budget constraints, no survey conducted since 2009.

EXHIBIT III

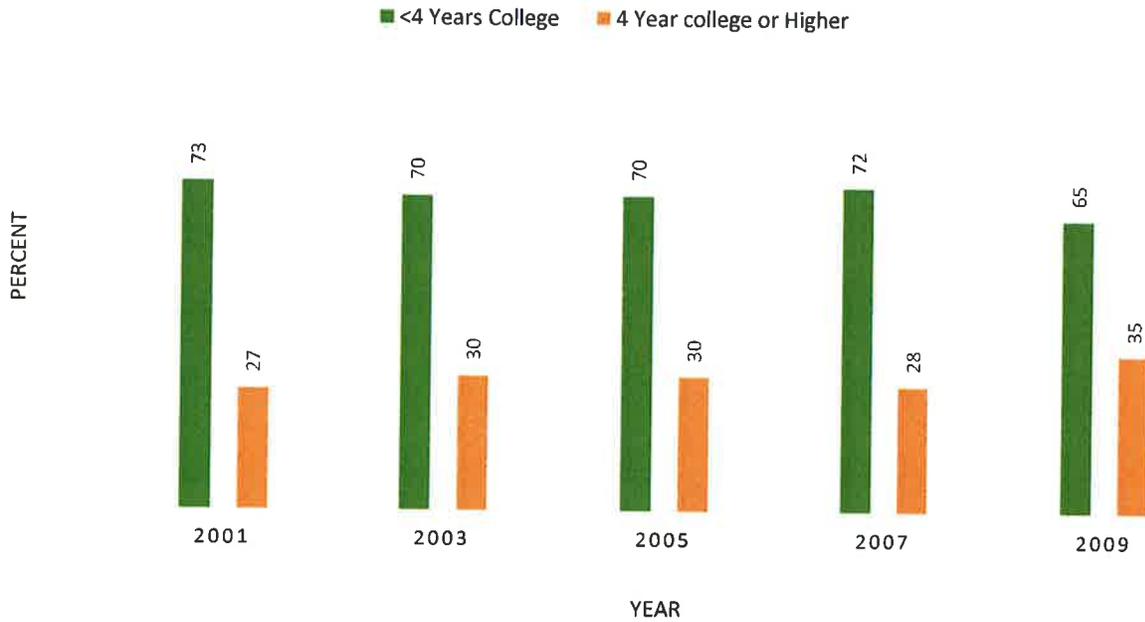
INCOME PROFILE OF DELAWARE LOTTERY PLAYERS



Source: Bi-annual DE Lottery Resident Survey
 Due to budget constraints, no survey conducted since 2009.

EXHIBIT IV

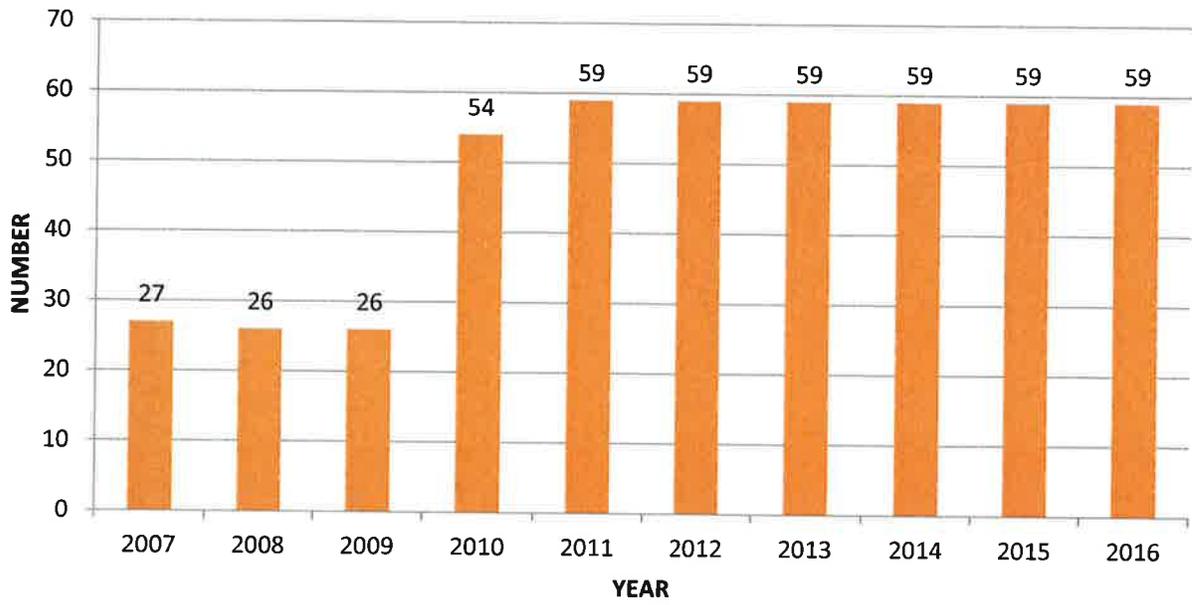
EDUCATION PROFILE OF DELAWARE LOTTERY PLAYERS



Source: Bi-annual DE Lottery Resident Survey
 Due to budget constraints, no survey conducted since 2009.

EXHIBIT V

NUMBER OF FULL-TIME EQUIVALENT EMPLOYEES



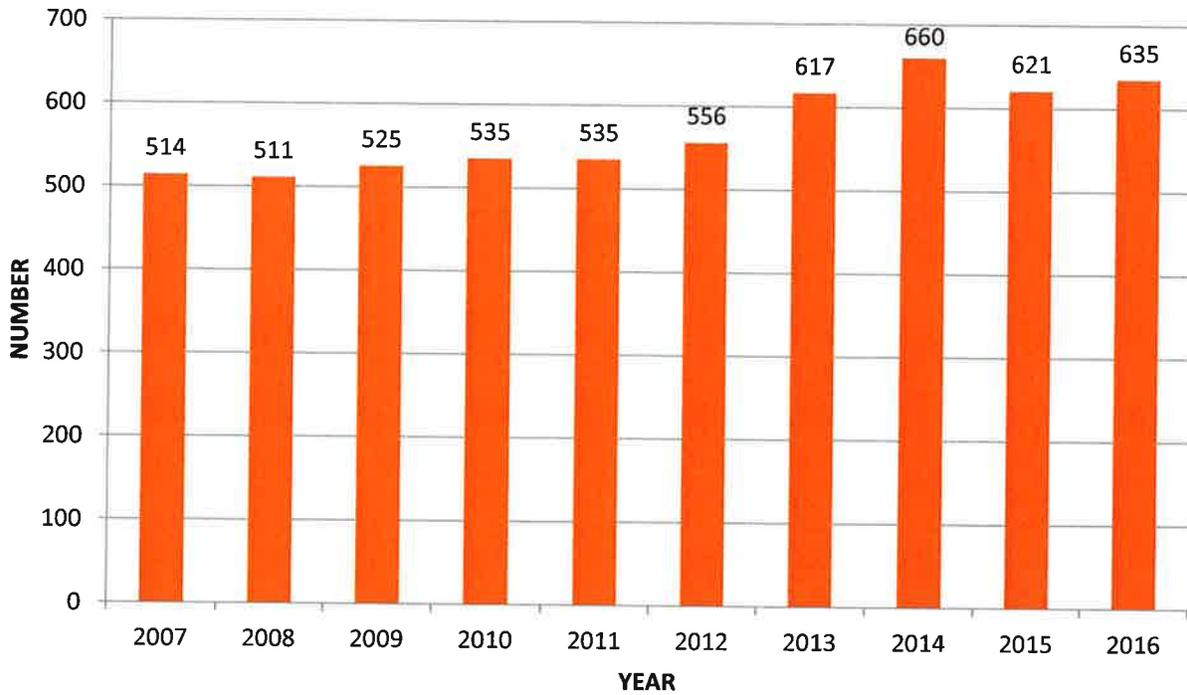
Source: Lottery Internal Records

■ Number of Employees

2010 Increase is a result of security and oversight for table games.

EXHIBIT VI

NUMBER OF RETAILERS



Source: Lottery Internal Records

■ NUMBER OF RETAILERS

EXHIBIT VII

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

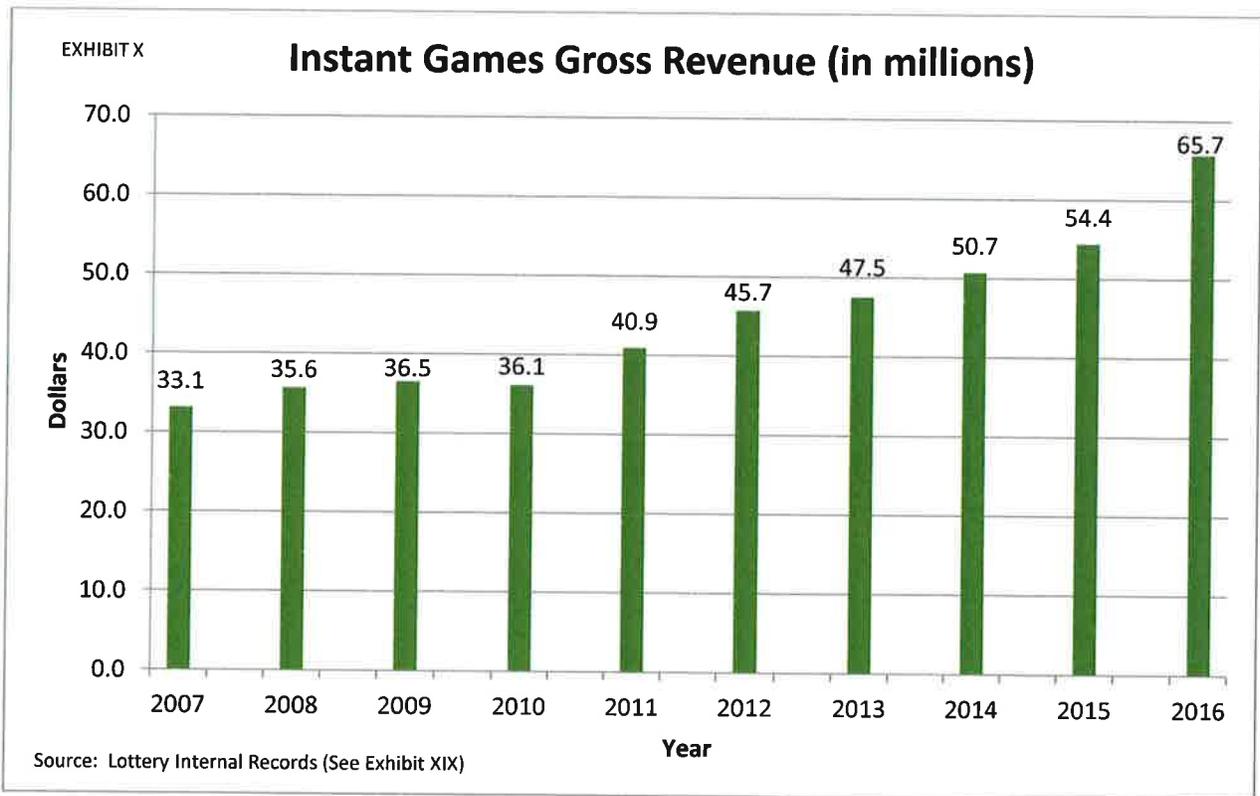
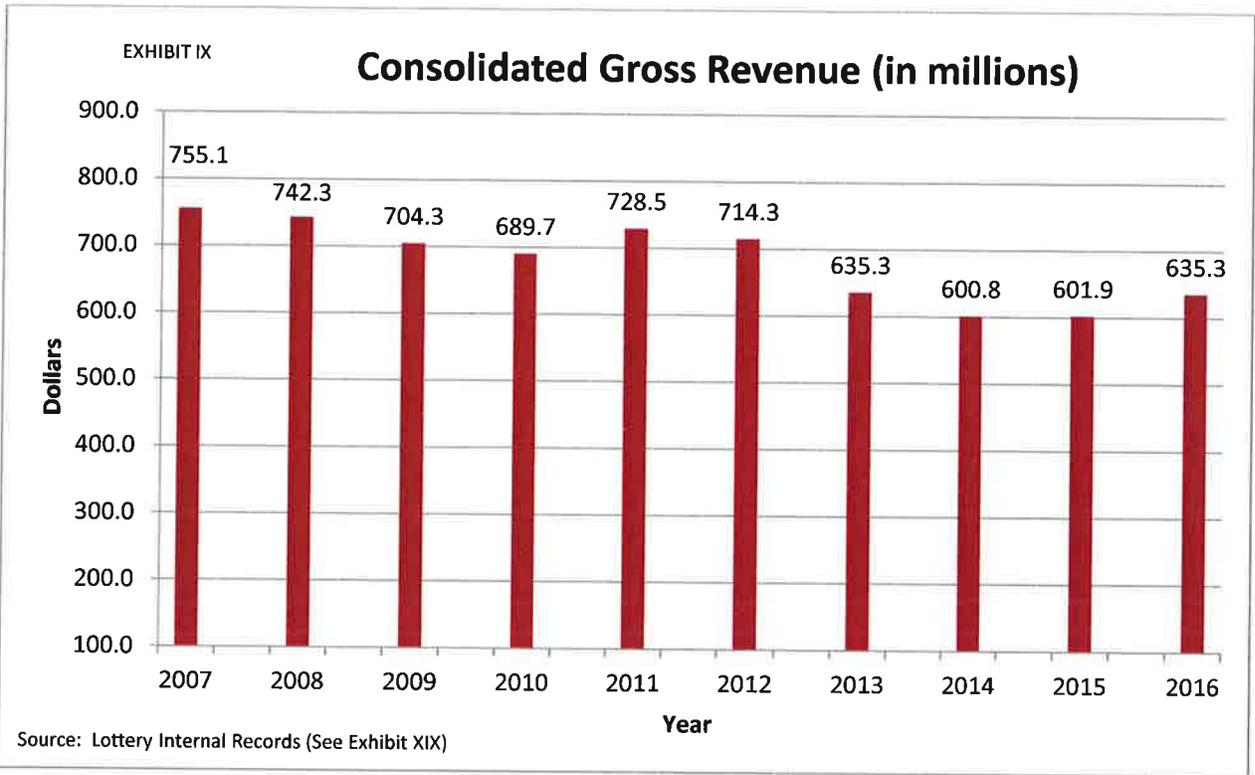
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Population										
State	859	872	884	892	900	908	917	926	935	946
Percentage Change	1.7%	1.5%	1.4%	0.9%	0.9%	0.9%	1.0%	0.9%	1.0%	1.2%
National	298,380	301,231	304,094	306,772	309,326	311,583	313,874	316,129	318,857	321,419
Percentage Change	1.0%	1.0%	1.0%	0.9%	0.8%	0.7%	0.7%	0.7%	0.9%	0.8%
Total personal income										
State (in millions)	34,608	35,698	36,590	36,423	36,860	38,768	40,379	41,487	43,392	45,819
Percentage Change	6.8%	3.2%	2.5%	-0.5%	1.2%	5.2%	4.2%	2.7%	4.6%	5.6%
National (in billions)	11,376	11,990	12,429	12,080	12,418	13,190	13,873	14,151	14,683	15,582
Percentage Change	7.3%	5.4%	3.7%	-2.8%	2.8%	6.2%	5.2%	2.0%	3.8%	6.1%
Per capita personal income										
State (in dollars)	40,276	40,950	41,398	40,846	40,969	42,696	44,031	44,815	46,378	47,662
Percentage Change	5.1%	1.7%	1.1%	-1.3%	0.3%	4.2%	3.1%	1.8%	3.5%	2.8%
National (in dollars)	38,127	39,804	40,873	39,379	40,144	42,332	44,200	44,765	46,049	47,669
Percentage Change	6.2%	4.4%	2.7%	-3.7%	1.9%	5.5%	4.4%	1.3%	2.9%	3.5%
Resident civilian labor force and employment										
Civilian labor force	440,125	442,841	445,127	439,322	436,052	437,956	441,127	443,020	462,415	482,629
Employed	424,618	427,265	423,448	404,570	401,214	405,452	409,796	413,260	440,762	462,455
Unemployed	15,507	15,576	21,679	34,752	34,838	32,504	31,331	29,760	21,653	20,174
Unemployment rate	3.5%	3.5%	4.9%	7.9%	8.0%	7.4%	7.1%	6.7%	4.7%	4.2%

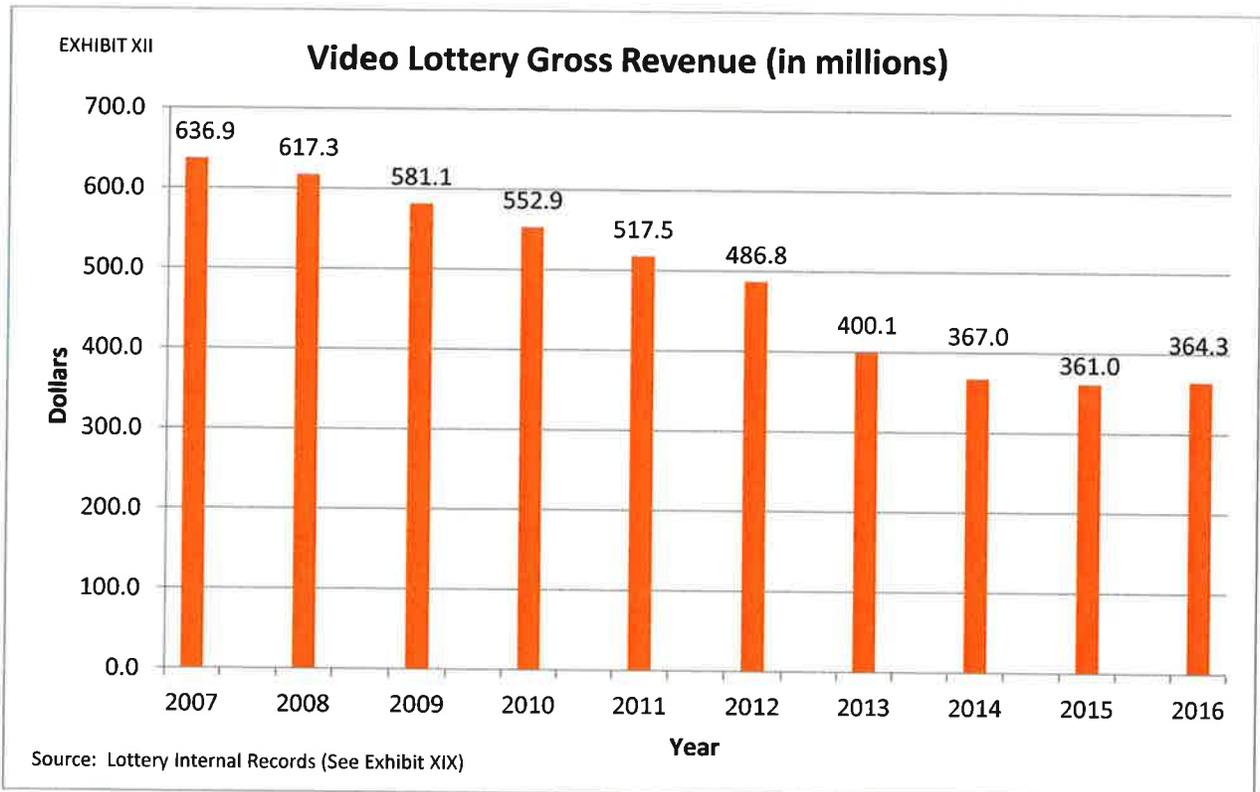
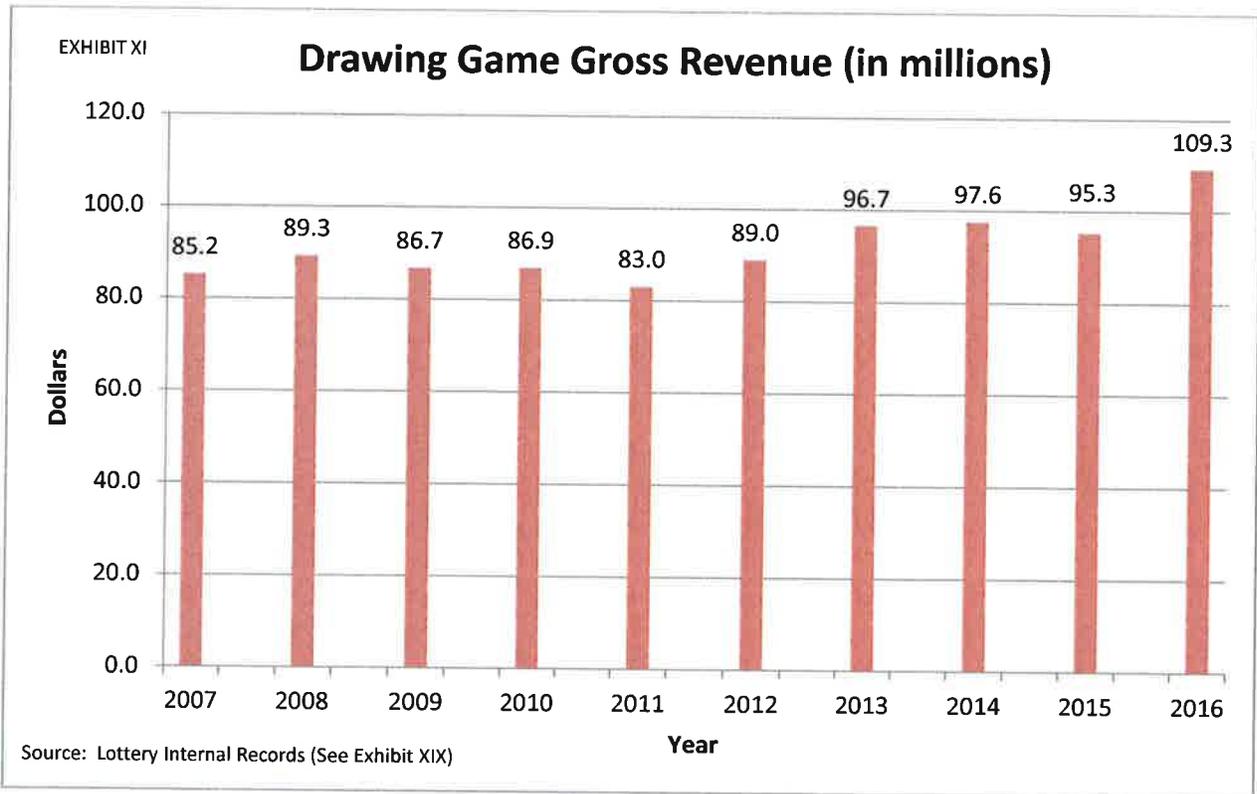
Sources:

Population is provided by the Bureau of Census, U.S. Department of Commerce (<http://factfinder2.census.gov/>) through estimates released in December 2015
 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 2015
 Delaware Department of Labor, Office of Occupational and Labor Market Information (<http://lmi.delawareworks.com/Content/Unemployment>) June 2016

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

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Revenue - Video Lottery, net	\$636,863,293	\$617,346,616	\$581,137,252	\$552,895,090	\$517,490,815	\$486,807,041	\$400,140,558	\$367,030,380	\$360,964,815	\$364,280,324
Revenue - I-Gaming - Video								\$1,374,944	\$1,773,149	\$2,559,090
Revenue - Traditional Lottery	118,263,630	124,913,848	123,170,990	122,943,197	123,939,356	134,685,576	144,108,404	148,370,099	149,817,606	175,040,937
Revenue - Sports Lottery				10,815,721	12,910,308	17,846,827	25,422,927	31,511,881	37,857,048	39,398,130
Revenue - Table Games				2,998,441	74,165,548	74,963,837	65,591,850	52,537,492	51,455,977	54,010,328
Total revenue	755,126,923	742,260,464	704,308,242	689,652,449	728,506,027	714,303,281	635,263,739	600,824,796	601,868,595	635,288,809
Total cost of games	417,566,696	412,006,967	381,351,243	343,862,671	373,555,714	373,878,198	346,106,879	332,467,983	347,266,684	370,690,457
Gross profit	337,560,227	330,253,497	322,956,999	345,789,778	354,950,313	340,425,083	289,156,860	268,356,813	254,601,911	264,598,352
Total operating expenses	6,544,008	6,970,323	6,599,557	9,586,801	11,054,570	11,363,136	11,360,971	10,920,844	10,640,462	10,733,694
Operating income	331,016,219	323,283,174	316,357,442	336,202,977	343,895,743	329,061,947	277,795,889	257,435,969	243,961,449	253,864,658
Non-operating Expenses:										
Standardbred Breeder's Program	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Certified Thoroughbred Program	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Contributions to the State of Delaware	326,959,769	320,088,132	312,083,174	331,609,108	339,895,743	325,061,947	273,795,889	253,435,969	239,961,449	249,864,659
Change in net position	56,450	-804,958	211,089	593,869	0	0	0	0	0	0
Net position at beginning of year	943,550	1,000,000	195,042	406,131	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Net position at end of year	1,000,000	195,042	406,131	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Net Investment in Capital Assets	6,781	5,274	3,767	2,260	753	0	0	0	0	0
Unrestricted	993,219	189,768	402,364	997,740	999,247	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Total Net Position	\$1,000,000	\$195,042	\$406,131	\$1,000,000						





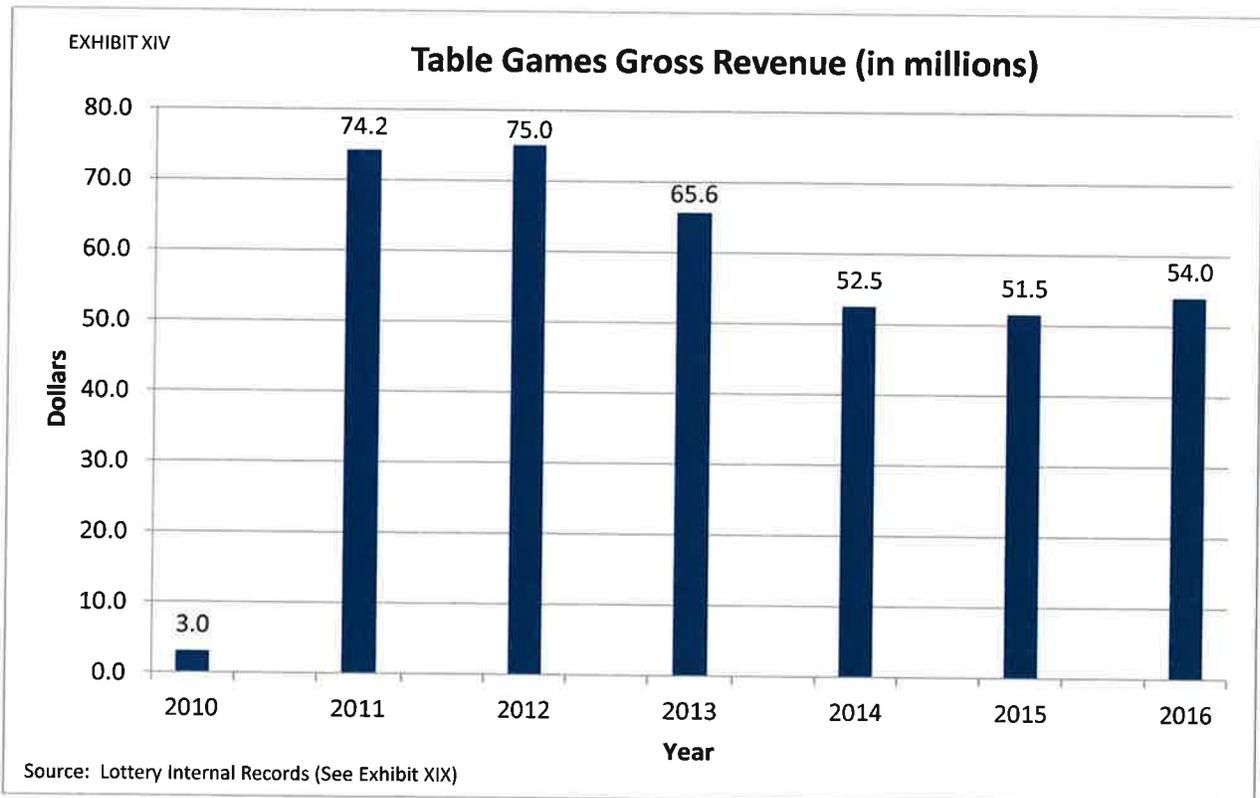
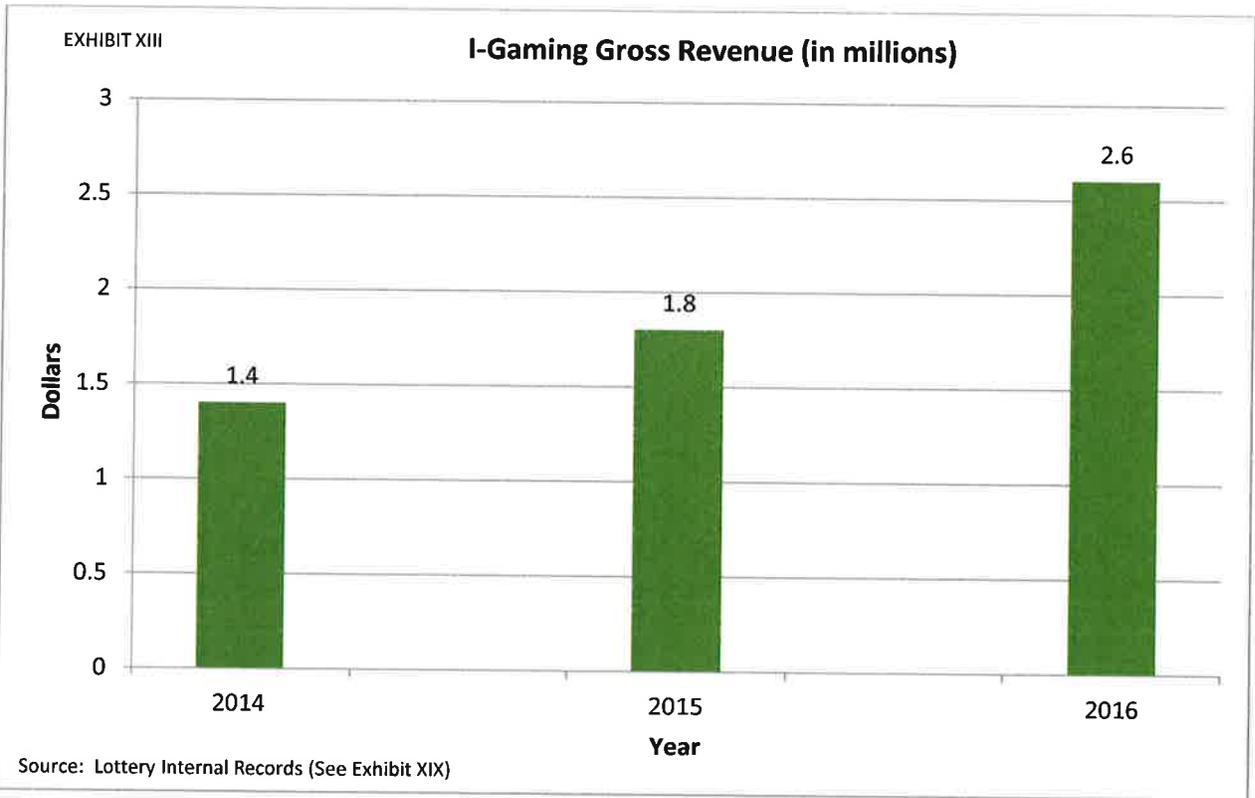
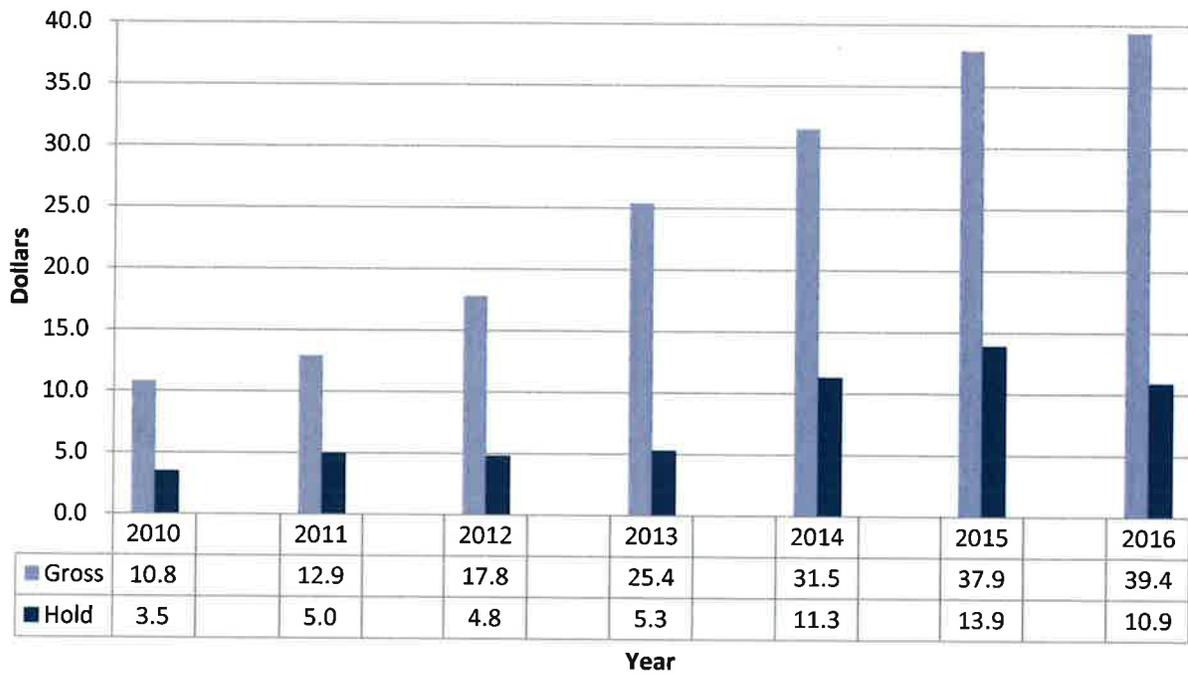


EXHIBIT XV

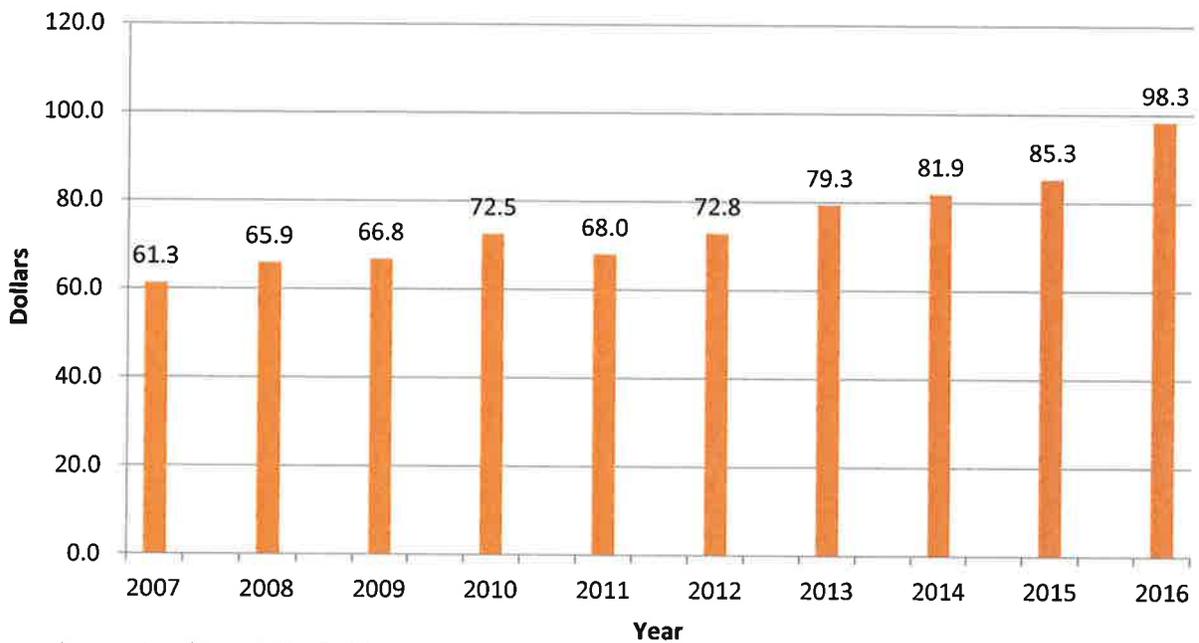
Sports Lottery Gross Revenue and Hold (in millions)



Source: Lottery Internal Records (See Exhibit XIX)

EXHIBIT XVI

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



Source: Lottery Internal Records (See Exhibit XIX)

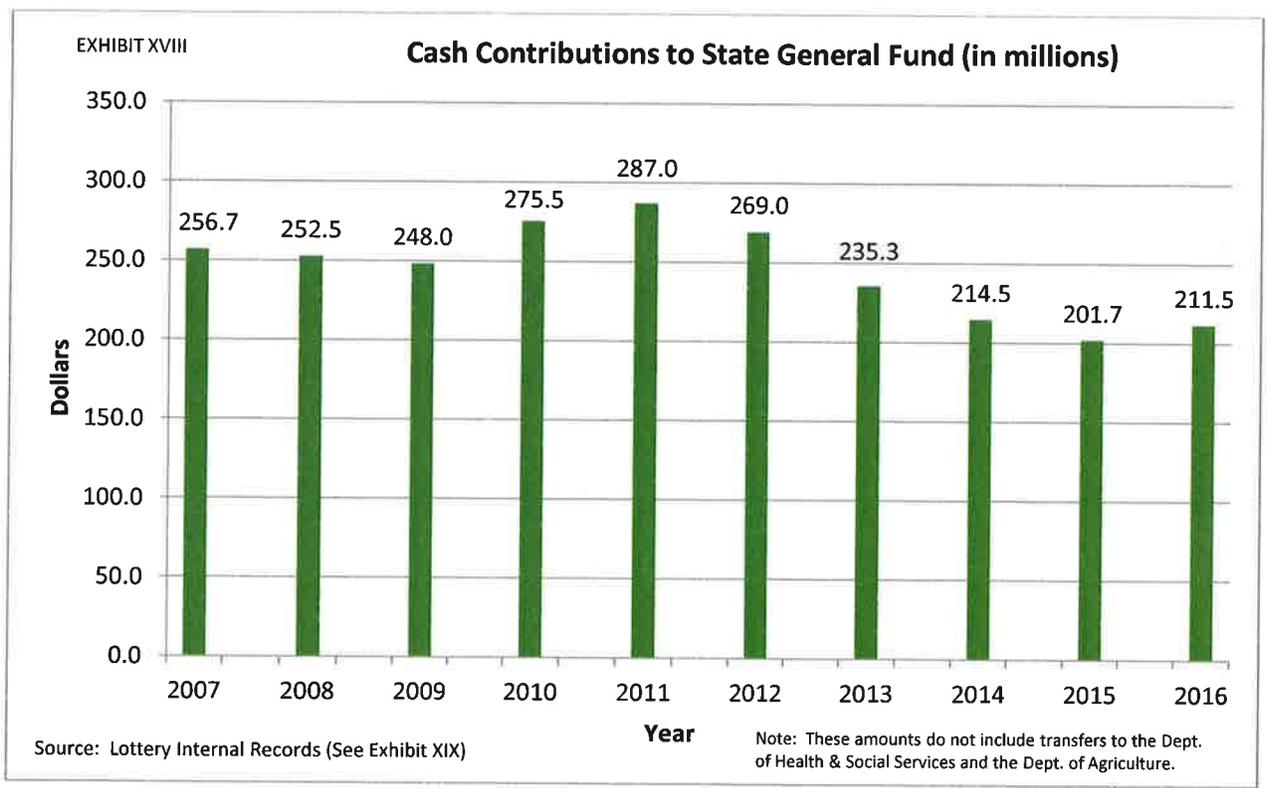
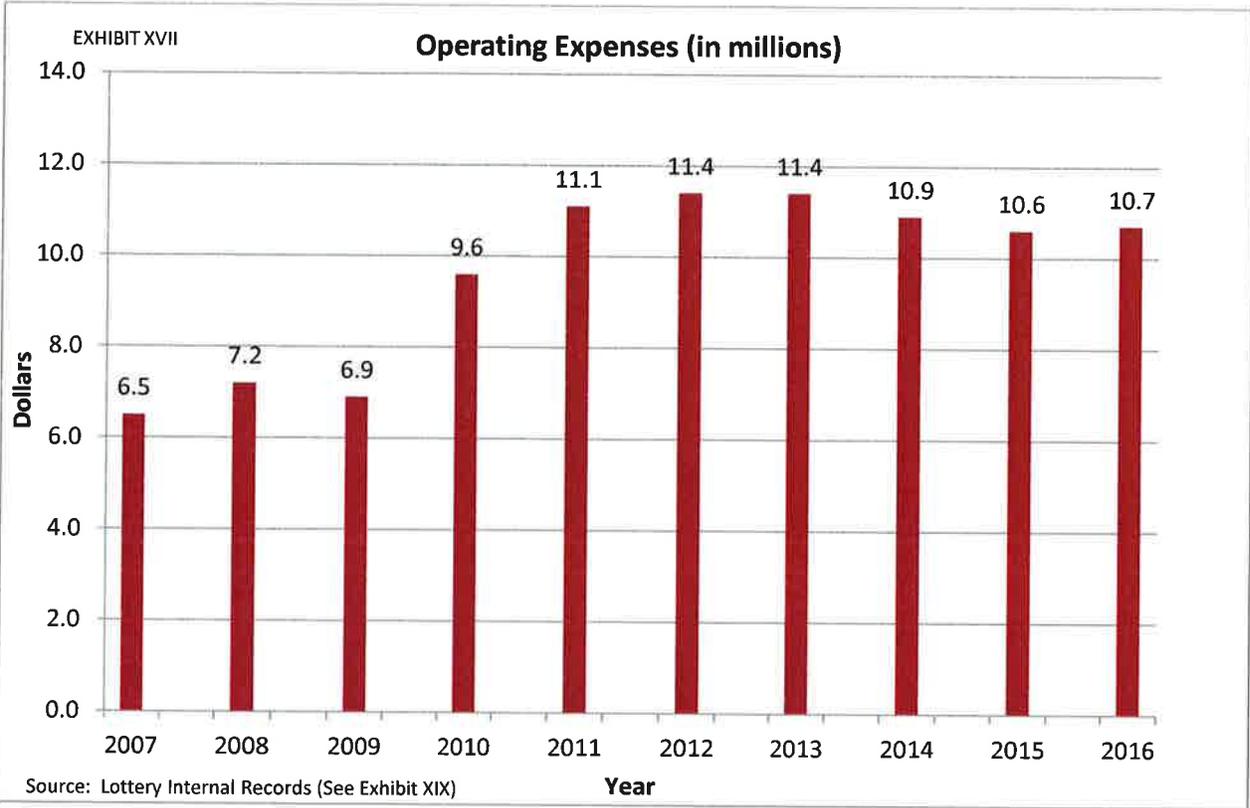


EXHIBIT XIX
Delaware State Lottery
Statistics

	Consolidated Gross Revenue \$ (millions)	Instant games Revenue \$ (millions)	Drawing games Revenue \$ (millions)	Video Lottery & I-Gaming Net Revenue \$ (millions)	Table Games & Sports Lottery Revenue \$ (millions)	Traditional Prizes Awarded to players \$ (millions)	Operating Expenses \$ (millions)	Contributions to State General Fund \$ (millions)
1976	6.7	6.7	0.0	0.0	0.0	2.7	17.3	2.0
1977	6.3	6.3	0.0	0.0	0.0	3.1	27.0	1.9
1978	5.4	1.6	3.8	0.0	0.0	2.6	16.2	1.6
1979	12.0	1.5	10.5	0.0	0.0	5.9	11.3	4.2
1980	16.0	1.9	14.1	0.0	0.0	8.1	9.4	5.6
1981	20.1	1.9	18.2	0.0	0.0	10.1	8.0	7.5
1982	25.6	2.2	23.4	0.0	0.0	13.3	6.7	9.5
1983	30.1	2.4	27.7	0.0	0.0	15.6	6.7	11.0
1984	33.1	2.1	31.0	0.0	0.0	15.4	6.2	14.0
1985	38.7	1.9	36.8	0.0	0.0	19.4	6.2	15.0
1986	41.1	2.4	38.7	0.0	0.0	19.7	6.3	16.7
1987	45.9	5.2	40.7	0.0	0.0	23.9	5.7	17.1
1988	55.6	9.7	45.9	0.0	0.0	29.2	5.5	20.5
1989	64.1	10.4	53.7	0.0	0.0	33.5	5.8	23.8
1990	67.2	13.8	53.4	0.0	0.0	35.0	5.5	25.1
1991	67.2	13.9	53.3	0.0	0.0	34.3	6.4	25.3
1992	78.5	15.8	62.7	0.0	0.0	41.5	6.9	27.7
1993	90.1	19.7	70.4	0.0	0.0	48.3	7.2	30.2
1994	100.6	17.5	83.1	0.0	0.0	53.4	7.1	34.3
1995	114.1	19.5	94.6	0.0	0.0	56.3	7.5	43.3
1996	188.9	23.9	87.9	77.1	0.0	58.2	10.5	57.8
1997	359.5	20.3	83.3	255.9	0.0	53.8	11.9	96.0
1998	447.4	18.2	102.5	326.7	0.0	62.4	11.2	125.4
1999	527.7	20.1	130.0	377.6	0.0	75.5	5.5	168.0
2000	556.6	19.6	83.1	453.9	0.0	51.1	6.9	185.4
2001	601.2	19.4	77.8	504.1	0.0	48.7	7.3	204.6
2002	674.0	21.0	96.2	556.8	0.0	59.2	7.3	230.0
2003	628.1	22.3	80.1	525.7	0.0	52.7	6.3	213.0
2004	640.9	25.0	83.6	532.3	0.0	53.2	5.6	222.0
2005	689.3	28.7	85.4	575.2	0.0	59.8	7.2	234.0
2006	728.0	31.4	93.1	603.5	0.0	64.9	5.7	248.8
2007	755.1	33.1	85.2	636.9	0.0	61.3	6.5	256.7
2008	742.3	35.6	89.3	617.3	0.0	65.9	7.2	252.5
2009	704.3	36.5	86.7	581.1	0.0	66.8	6.9	248.0
2010	689.7	36.1	86.9	552.9	13.8	72.5	9.6	275.5
2011	728.5	40.9	83.1	517.6	87.1	75.8	11.1	287.0
2012	714.3	45.7	89.0	486.8	92.8	85.6	11.4	269.0
2013	635.3	47.5	96.7	400.1	91.0	79.8	11.4	235.3
2014	600.8	50.7	97.6	368.5	84.0	81.9	10.9	214.5
2015	601.9	54.4	95.3	362.8	89.4	85.3	10.6	201.7
2016	635.3	65.7	109.3	366.9	93.4	98.3	10.7	211.5
Totals	13,767.5	852.5	2,684.1	9,679.7	551.5	1,884.0	360.6	4,773.0

EXHIBIT XX

U.S. Lotteries'
Comparison of Sales by Game
Fiscal Years 2016 and 2015
(in \$millions)

GAME SALES (MILLIONS)	2016	2015	% INCREASE (DECREASE)
INSTANT	\$43,816.6	\$40,825.1	7.33%
PULL TAB	88.9	82.0	8.41%
3-DIGIT	5,551.4	5,401.8	2.77%
4-DIGIT	4,463.0	4,284.1	4.18%
LOTTO	3,774.6	1,829.9	106.27%
CASH LOTTO	108.0	1,347.2	-91.98%
POWERBALL	6,437.9	3,863.5	66.63%
MEGA MILLIONS	2,440.0	2,697.3	-9.54%
HOT LOTTO	108.0	135.6	-20.35%
KENO	3,808.9	3,530.8	7.88%
FOR LIFE	392.9	318.2	23.48%
VLT (VIDEO LOTTERY)	6,067.7	6,159.6	-1.49%
OTHER	615.4	1,266.7	-51.42%
TOTAL	\$77,673.3	\$71,741.8	8.27%

Source: La Fleur's Magazine, Sept/Oct 2016

EXHIBIT XXI

U.S. Lotteries' Unaudited Fiscal Year 2016 Sales by Game
(in \$millions)

State	Population (M)	Instant	Pull Tab	3-Digit	4-Digit	Lotto	Cash Lotto	Powerball	Mega Millions	for Life	Raffle	Keno	Other	Total Sales	PC Sales	VLT*
AZ	6.8	590.7	6.1	10.6		58.6		160.3	44.7					871.0	128	
AR	3.0	360.0		7.2	3.8	7.6		48.1	14.6	3.3			11.0	455.6	153	
CA	39.1	4,351.8		143.3	29.8	437.3		707.2	355.7			232.3	18.2	6,275.6	160	
CO	5.5	395.2		9.0	0.0	46.4		115.1	28.8					594.4	109	
CT	3.6	742.3		128.2	116.9	73.6		106.3	29.4	21.7		12.4		1,230.8	343	
DC	0.7	50.8		43.9	55.8	0.0	2.2	16.1	5.9	3.0		9.0	41.9	228.5	340	
DE	0.9	65.7		27.7	22.6	4.6	2.4	30.5	9.5	4.0		8.2		175.2	185	354.1
FL	20.3	3,954.7		379.8	291.7	672.6		602.0	150.0		11.7			6,062.4	299	
GA	10.2	3,100.7		546.8	260.2	149.6		201.4	96.3			192.9	8.0	4,555.9	446	
ID	1.7	129.0	33.2	2.2	0.0	2.1	3.3	42.6	10.5	3.7	2.5		7.1	236.1	143	
IL	12.9	1,811.8		269.3	219.2	245.2		207.7	99.6		5.4			2,858.2	222	
IN	6.6	870.0		37.0	36.2	85.0		131.4	33.2				14.8	1,207.6	182	
IA	3.1	233.7	15.1	7.4	3.6	0.0	12.8	74.9	16.4	3.2				366.9	117	
KS	2.9	168.1		6.5	0.0	12.9	9.3	54.3	14.0		3.5	16.1	2.8	287.4	99	
KY	4.4	593.2		138.8	42.4	16.7		93.7	30.5	8.9		65.4		989.6	224	
LA	4.7	212.2		52.3	45.8	41.0		126.1	29.7					507.0	109	
ME	1.3	210.5		5.3	4.3	0.0	13.9	28.4	6.0	4.4				272.8	205	
MD	6.0	611.3		241.6	280.8	57.6		143.5	73.2	12.0		311.6	167.1	1,898.6	316	741.7
MA	6.8	3,597.9	0.7	0.0	329.4	101.8		165.6	67.1	26.6		905.0	2.2	5,196.3	765	
MI	9.9	1,097.3	32.6	357.3	414.3	121.4		215.4	106.0	18.9	9.3	625.3		2,997.9	302	
MN	5.5	394.7		16.7	0.0	25.2	12.8	98.5	18.5	8.0	7.0		11.6	592.9	108	
MO	6.1	831.7		73.3	46.4	55.4		131.0	35.2	8.4		59.7		1,241.1	204	
MT	1.0	17.9		0.0	0.0	5.0	3.4	18.7	3.5	3.4	2.7	0.5	5.1	60.0	58	
NE	1.9	97.4		4.7	0.0	14.1	2.1	49.6	11.8	0.0				179.6	95	
NH	1.3	218.1		5.5	4.9	0.0	12.6	41.7	11.3	5.3			2.6	301.9	227	
NJ	9.0	1,842.4		439.6	275.2	209.1		286.0	144.4	45.4			48.0	3,290.0	367	
NM	2.1	83.1		4.9	0.0	7.4	4.3	43.3	10.5	0.0			0.8	154.4	74	
NY	19.8	3,912.3		902.5	911.4	337.9		460.1	254.5	107.6		816.9		7,703.1	389	1,627.3
NC	10.0	1,617.5		286.0	126.0	74.7		208.7	57.9	12.9				2,383.6	237	
ND	0.8	0.0		0.0	0.0	0.0	7.8	20.2	5.1	2.6				35.7	47	
OH	11.6	1,560.4		343.0	200.4	94.9		193.5	102.2	14.1		364.3	183.9	3,056.7	263	868.9
OK	3.9	78.6		5.3	0.0	5.4	7.8	73.0	19.5	0.0				189.6	48	
OR	4.0	131.6		0.0	1.6	38.9		63.8	18.8	0.0	2.5	95.8		353.0	88	876.5
PA	12.8	2,792.7		294.0	232.7	233.4		358.0	106.4	32.1	31.6		54.4	4,135.2	323	
RI	1.1	96.3		0.0	23.8	4.3		36.3	10.1	5.4		83.7	1.0	260.9	247	488.7
SC	4.9	1,137.8		179.2	90.7	19.0		119.5	37.0	17.1				1,600.4	327	
SD	0.9	26.3		0.0	0.0	2.1	4.0	19.3	3.7	0.0				55.5	65	207.6
TX	27.5	3,699.8		259.8	94.6	294.3		499.0	194.0	0.0				5,041.4	184	
VT	0.6	93.3		1.4	1.3	0.0	4.7	12.9	3.3	1.8			5.8	124.3	199	
VA	8.4	1,100.6		272.8	279.8	47.6		163.9	87.4	19.0	6.6		29.2	2,006.9	239	
WA	7.2	454.0		16.7	0.0	81.6		96.0	42.0			5.9		696.0	97	
WV	1.8	102.5		8.2	4.9	5.1	4.8	46.6	12.0			4.1		188.2	102	903.0
WI	5.8	381.4	1.1	24.0	12.8	71.7		112.5	25.5		0.8			629.8	109	
WY	0.6				0.0	13.7		15.3	4.4					33.4	57	
Total	298.9	43,816.6	88.9	5,551.4	4,463.0	3,774.6	108.0	6,437.9	2,440.0	392.9	83.5	3,808.9	615.4	71,581.1	239	6,067.7

Source: La Heur's Magazine, Sept/Oct 2016

EXHIBIT XXII

U.S. Lotteries' Unaudited Fiscal Year 2015 Sales by Game
(in \$millions)

State	Population (M)	Instant	Pull Tab	3 - Digit	4 - Digit	Lotto	Cash Lotto	Powerball	Mega Millions	for Life	MUSL Bloc	Keno	Other	Total Sales	PC Sales	VLT*
AZ	6.7	542.0	5.1	9.7		25.8	17.1	93.6	45.9		0.9		9.7	750.0	111	
AK	3.0	335.0		6.7	3.8	0.6	7.0	27.1	15.2	2.0	0.4		10.8	408.7	138	
CA	38.8	3,915.4		140.2	28.8	287.7	145.8	372.4	404.4			206.4	23.7	5,524.9	142	
CO	5.4	377.2		8.7		29.8	19.3	72.0	31.0					538.0	100	
CT	3.6	688.0		122.9	108.8	20.1		66.5	32.4	21.5			83.7	1,144.0	318	
DC	0.7	28.3		44.9	56.3	18.0		11.2	6.8	1.5	3.6	10.4	30.1	211.2	320	
DE	0.9	54.5		25.6	21.2	0.5	4.2	21.0	10.8	2.4	3.2	7.0		150.5	161	350.5
FL	19.9	3,724.0		363.3	276.2	301.0	103.2	375.1	147.4		5.5		287.8	5,583.3	281	
GA	10.1	2,869.8		516.2	242.7	94.4	12.4	111.5	106.4		1.8	206.5	33.3	4,195.2	415	
ID	1.6	126.8	25.6	2.1		2.4		29.3	11.3	1.9	4.8		6.0	210.2	129	
IL	12.9	1,821.6		263.8	223.3	107.7	150.6	133.4	119.5				17.3	2,837.3	220	
IN	6.6	759.3		33.4	32.9	43.3		86.8	35.8		0.8		49.0	1,041.3	158	
IA	3.1	212.0	16.0	7.0	3.2			52.2	18.0		16.2			324.8	105	
KS	2.9	160.6		6.1				35.3	14.7		11.1	18.2	19.1	265.0	91	
KY	4.4	558.8		130.9	38.4	10.0	7.7	64.9	33.1	2.9	0.9	47.2	2.6	897.3	203	
LA	4.6	202.2		51.9	41.6	26.8		86.6	32.5				10.7	452.5	97	
ME	1.3	199.5		5.1	4.0	10.9		18.8	6.2	4.7	2.4		1.6	253.4	190	
MD	6.0	546.1		240.9	277.0	34.5	21.3	89.5	82.0		1.6	303.0	161.2	1,757.1	294	681.8
MA	6.7	3,523.3	0.7		322.9	18.7	75.1	93.1	77.0	26.9		850.6	2.8	4,990.9	740	
MI	9.9	1,009.7	33.4	339.1	389.5	49.9	58.0	120.5	135.8	16.2	1.8	587.2	17.4	2,758.2	278	
MN	5.5	375.2		14.6		21.8	9.5	66.6	21.0	5.0	18.5		14.5	546.9	100	
MO	6.1	745.5		70.5	44.7	20.7	30.4	81.6	34.9	3.7	0.8	58.4	8.0	1,099.1	181	
MT	1.0	17.5					4.4	12.5	4.0	1.8	4.9	0.6	6.8	52.5	51	
NE	1.9	91.9		4.4		12.0	1.7	35.6	12.4		2.0			160.0	85	
NH	1.3	209.1		5.2	4.7	6.8	2.6	27.9	12.3	5.3	3.6		2.0	279.6	211	
NJ	8.9	1,695.1		437.8	271.8	148.2	62.4	165.4	162.5	70.4				3,013.6	337	
NM	2.1	80.0		4.6		6.2		27.7	11.2		6.4		0.9	137.0	66	
NY	19.7	3,760.1		870.5	852.0	84.0	245.3	304.5	287.8	120.3	4.7	721.7		7,251.0	367	1,905.3
NC	9.9	1,294.0		278.1	122.9	19.5	64.9	130.1	61.3		1.4			1,972.2	198	
ND	0.7							12.3	5.7		9.0			27.0	37	
OH	11.6	1,550.1		338.0	192.8	62.5	31.0	105.1	113.3			329.3	168.8	2,890.9	249	773.0
OK	3.9	81.6		5.3		2.0	4.2	46.5	22.1		9.9		0.2	171.9	44	
OR	4.0	119.6			1.4	33.4	4.1	37.1	20.5			93.0	9.3	318.4	80	798.6
PA	12.8	2,591.6		310.9	234.8	68.0	136.2	239.8	124.9	11.3	5.0		97.0	3,819.6	299	
RI	1.1	90.5	0.0		24.2	3.7		26.0	11.5	5.5	0.3	80.5	0.9	243.1	230	516.3
SC	4.8	1,002.5		163.0	84.9	20.0		80.0	42.2	9.0				1,401.7	290	
SD	0.9	26.5				2.2		13.5	3.9		5.7			51.8	61	199.1
TX	27.0	3,472.6		257.6	91.7	141.6	50.4	226.3	189.2		2.7		92.5	4,524.5	168	
VT	0.6	85.5		1.4	1.2	3.8	0.8	8.3	3.7	1.9			5.4	111.8	178	
VA	8.3	1,018.5		272.3	268.6	12.3	29.9	94.3	96.6	3.8			47.6	1,843.9	221	
WA	7.1	404.1		16.8		44.8	23.4	47.3	44.6			5.8	12.9	599.7	85	
WV	1.9	103.3		8.1	4.8	5.2		34.1	13.6		5.7	5.1		180.0	97	935.1
WI	5.8	356.2	1.1	24.1	12.7	25.2	24.3	70.9	26.9				33.0	574.5	100	
WY	0.6					3.6		9.2	5.0					17.8	31	
Total	303.1	40,825.1	82.0	5,401.8	4,284.1	1,829.9	1,347.2	3,863.5	2,697.3	318.2	135.6	3,530.8	1,266.7	65,582.2	216	6,159.6

Source: La Heur's Magazine, Sep/Oct 2015