

DELAWARE STATE LOTTERY

An Enterprise Fund of the State of Delaware



COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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Prepared by:

The Finance and Accounting Department of the Lottery

Tina M. Leager

Fiscal Administrative Officer

Delaware State Lottery

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INTRODUCTORY SECTION





STATE OF DELAWARE
DEPARTMENT OF FINANCE
STATE LOTTERY OFFICE

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December 17, 2018

The Honorable Rick Geisenberger
Secretary of Finance,
State of Delaware

INTRODUCTION

We are pleased to submit to you this Comprehensive Annual Financial Report of the Delaware State Lottery for the fiscal year ended June 30, 2018. 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, 2017.

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, 2018 and 2017.

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 operations of the lottery. The legislation provided that at least 45 percent of total revenue shall be used to pay prizes, operating expenses shall not exceed 20 percent of total revenue and up to 30 percent of total revenue will be paid to the General Fund of the State of Delaware.

Traditional Lottery tickets are sold via a network of 619 retailers (as of June 30, 2018) 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.

PLAY3[®] Play 3 was the first traditional drawing game introduced by the Lottery in January 1978. Players pick three numbers from 0 to 9 and choose among nine different play options. Players also have the option of selecting for a “Day” or a “Night” drawing. “Day” drawings are held Monday through Saturday and “Night” drawings are held seven nights a week. Odds of winning and payouts vary depending on the selected option.

PLAY4[®] Play 4 was introduced in January 1980. Players pick four numbers from 0 to 9 and choose among five different options. Players also have the option of selecting for a “Day” or a “Night” drawing. “Day” drawings are held Monday through Saturday and “Night” drawings are held seven nights a week. Odds of winning and payouts vary depending on the selected option.

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

**POWERBALL** Powerball is a traditional lottery drawing game jointly operated by 47 lotteries of which 36 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 January 2010, the Lottery began to sell tickets for Mega Millions, one of the country's biggest traditional lottery drawing jackpot game. Changes made in fiscal year 2018, included: starting jackpot of \$40 million, tickets cost \$2 per play and players select five different numbers from 1 to 70 from one pool of numbers, and one Mega Ball number from 1 to 25. Lottery players also can wager an additional \$1 to activate the Mega plier option, which could multiply their non-jackpot prize by 2X – 5X. Players win the jackpot by matching all six numbers in a drawing. Drawings are held on Tuesday and Friday nights.



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



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

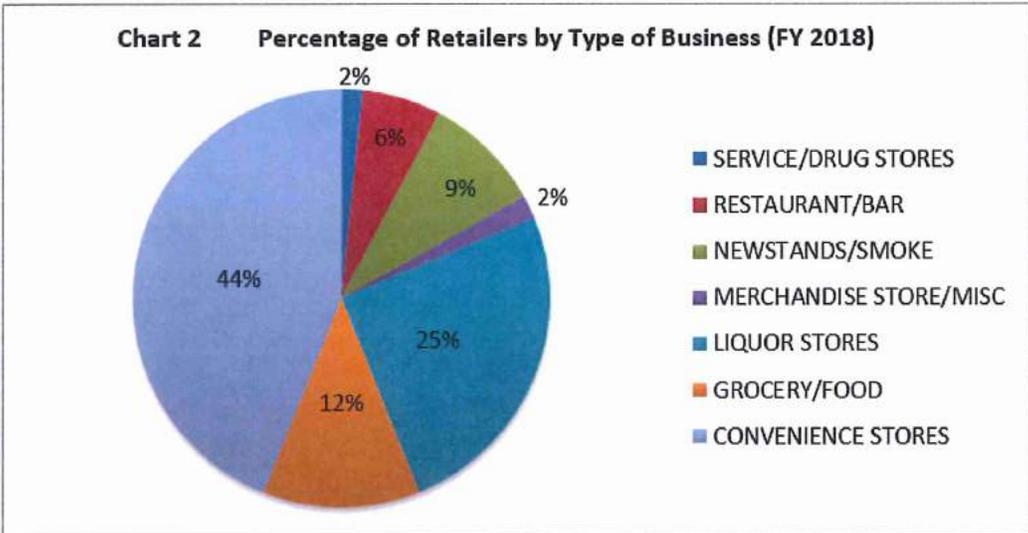


In 2017, Delaware joined a multi-state game called Lotto America. Lotto America cost \$1 to play, selecting five numbers 1 to 52 for the red balls, then selecting one number from 1 to 10 for the Lotto America Star Ball. Lotto America's Grand Prize starts at \$2 million and increases by a minimum of \$50,000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

Retailer Data:



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 48 Charitable Gaming Organizations with over 450 machines operating throughout the state.

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



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 and currently extended to over 100 retailers. On June 5, 2018, the Delaware Lottery became the first to offer full-scale sports betting, this side of the Mississippi, due to the Supreme Court’s decision to strike down a 1992 federal law that banned commercial sports betting in most states.



On January 15, 2010, enabling legislation was passed by the General Assembly of the State of Delaware authorizing the introduction and operation of table games by the Delaware Lottery at licensed video lottery agents. On January 28, 2010, the legislation was signed into law by the Governor. Like video lottery, table games are offered on the premises of Delaware's video lottery agents. The Delaware Lottery was given administrative and regulatory oversight of table games,

including determining which table games (blackjack, craps, roulette, poker, etc.) would be played, as well as establishing regulations for the effective management of the games.

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

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

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



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

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

ECONOMIC OUTLOOK

U.S. LOTTERY INDUSTRY:

Based on statistics compiled by *LaFleur's*, a gaming industry publication, total unaudited lottery sales for U.S. lotteries increased 7% to \$77.7 billion in fiscal year 2018, an increase of \$500.2 million. The Oklahoma Lottery led the industry with a 46% increase in lottery sales in fiscal year 2018. Forty-three U.S. Lotteries posted an increase in sales growth for traditional lottery in fiscal year 2018. The New York Lottery ranked first in gross traditional sales at \$7.9 billion. The Massachusetts Lottery ranked first in per capita total sales at \$778.

Total U.S. instant ticket sales increased 6% to \$47.9 billion, up \$2.8 billion in additional instant sales over previous year. The Massachusetts Lottery ranked first in per capita instant sales at \$532. The California Lottery ranked first in gross sales of \$5.1 billion. The Oklahoma Lottery ranked first with an 88% increase in fiscal year 2018 instant sales over fiscal year 2017.

The traditional lottery sales increase had a big part to do with the Mega Millions price increase. There were also large jackpots for both Powerball and Mega millions during the winter holidays.

MAJOR INITIATIVES

GENERAL:

After the completion of fiscal year 2018 the Delaware Lottery has distributed over \$5.2 billion to the State General Fund. Since the commencement of video lottery and table games, The Delaware Lottery has contributed \$35.3 million to the Department of Health and Social Services to help fund initiatives that address problem gambling in Delaware.

The Delaware Lottery was ranked 34th out of 44 U.S. lotteries in total traditional lottery sales and finished 17th in per capita sales. The Delaware Lottery ranked 29th in per capita instant sales and placed 34th in overall change in instant sales. The Delaware Lottery ranked 28th out of 44 states in draw sales and ranked 6th 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 \$354 million.

The Lottery extended its contract with Gaming Labs International (GLI) for Video Lottery testing, inspection and consulting services for one year. Existing contracts with vendors who provide Video Lottery Terminals (VLTs) were extended for two years.

We currently have 48 approved CGOs operating 480 VLTs. During fiscal year 2018, Video Lottery had 23 jackpots of \$50,000 and over, and one jackpot over \$179,000.

TABLE GAMES:

During fiscal 2018, the eighth full year of table game operations, more requests were received from the casinos and approved asking for changes to their Internal Controls. Their requests ranged from the addition of new games to changes to the gaming floor processes. Also over 140 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 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. This year we also started a review of the Table Gaming MICS (Minimum Internal Controls) for any updates / changes needed that may be out of date.

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 give the patrons the best available selections possible. They have held over 70 Poker Tournaments.

Dover Downs offers a variety of Poker Tournaments and Promotions which included Black Jack and Craps tournaments. They hosted a multi-day Poker event that was well attended. In addition to the multi-day event. They have also hosted several Private Poker events along with charity poker events. Harrington offers several types of promotions and tournaments. During fiscal 2018, they offered monthly Craps, Blackjack and Poker tournaments. Harrington also offers a match play coupon program to their patrons.

Table Game inspectors at all three properties continue to work with the VLT staff on deliveries, removals and repositioning of VLT's. Along with being present for deliveries and a present in the count room during the daily drop box counts. They also assist the Revenue Auditors whenever needed. The Revenue Auditors continue to review the weekly Revenue for each venue as well as compliance of the Minimal Internal Controls.

MARKETING AND SALES MANAGEMENT:

This fiscal year, America's newest multimillion-dollar draw game, Lotto AmericaSM with All-Star Bonus, will offer players a starting grand prize of \$15 million. MEGA MILLIONS[®] offer players exciting changes this fiscal year. The most exciting among the format changes is the doubling of the third-tier prize (4+1 match) from \$5,000 to \$10,000.

To celebrate the 5th anniversary of Keno[®], marketing conducted a 2nd chance drawing promotion giving away a total of \$15,000 in prizes. Lottery players were entered into the drawing by simply mailing in their non-winning Delaware Lottery Keno[®] tickets for a chance to win 1 of 20 cash prizes.

In February 2018, the Lottery launched a new Advanced Entertainment Games Information System (AEGIS). This new system is tied to the Lottery's strategic plan to offer us the opportunity

to offer technology and initiatives that will support the responsibly to increase revenue for the State of Delaware and its beneficiaries. As a result of the implementation to the new system, the Lottery was able to acquire new state-of-the-art, self-service, Player High Definition (PHD) machines. The addition of the PHD's allowed us to bring on 100 new retail locations throughout the state which included the Delaware Wawa locations.

The Powerball Power Cruise 2nd chance drawing is back and it's better than ever! For a limited time, lottery players had the chance to sail away on a privately chartered 5-night cruise vacation aboard the Royal Caribbean Majesty of the Seas®. To enter the 2nd chance drawing, players had to mail in non-winning Delaware Lottery Powerball tickets. Delaware Lottery players had a chance to win 1 of 6 Powerball Power Cruise vacation prize packages for two (winner and guest) to Nassau and CocoCay, Bahamas.

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

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.

FUTURE AND ON-GOING PROJECTS

OVERALL:

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

VIDEO LOTTERY:

- An extensive review was conducted of current Video Lottery and Table Games Regulations and revisions submitted (effective mid-December).
- Video Lottery is working with Scientific Games to upgrade the central system in late 2018.

TABLE GAMES:

- 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.

MARKETING AND SALES MANAGEMENT:

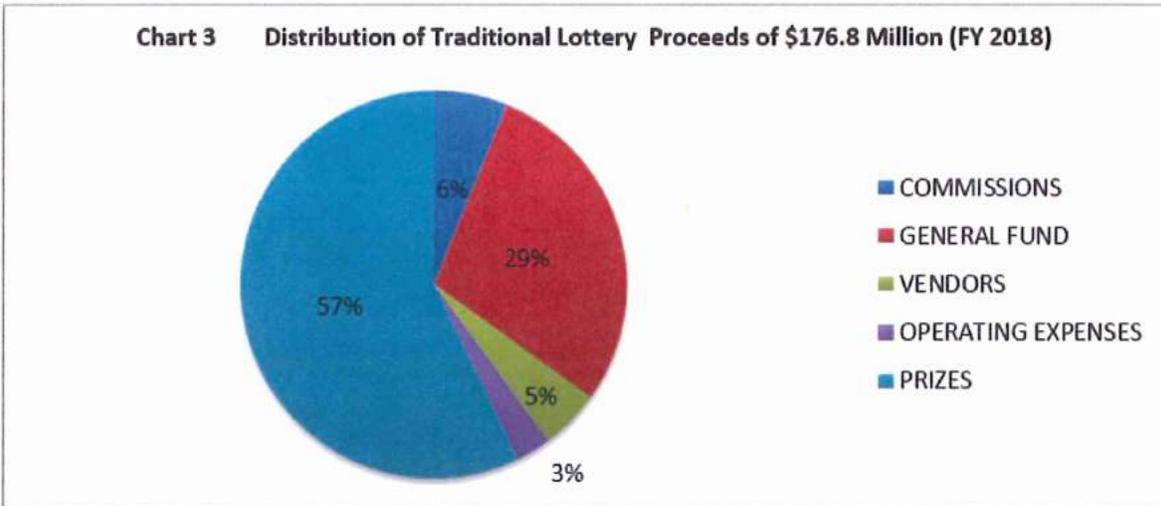
- Continue the expansion of our retailer network by actively recruiting new and unique trade styles.
- Expand retailer network to grow Keno sales.
- Expand Sports Lottery retailer network as needed.
- Introduce a Drawing and Instant Games Ticket Loyalty Program.
- Continue to develop effective mass media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

FINANCIAL INFORMATION

The Management Discussion and Analysis section starting on page 28 should also be read for an overview of the financial results.

REVENUE DISTRIBUTION:

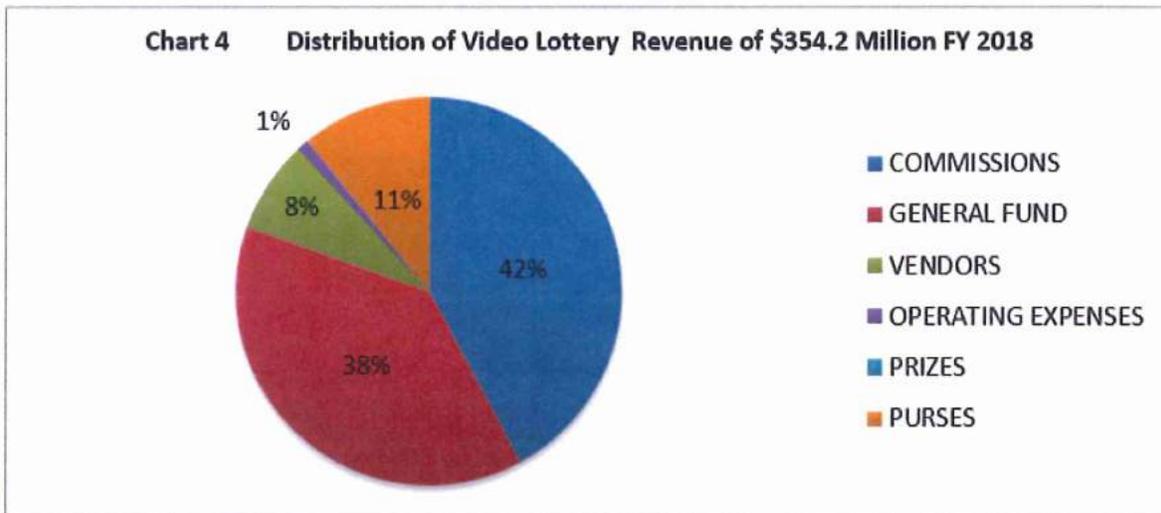
For Fiscal Year 2018, Traditional Revenue was distributed as shown in the following chart:



Source: Lottery Internal Records

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

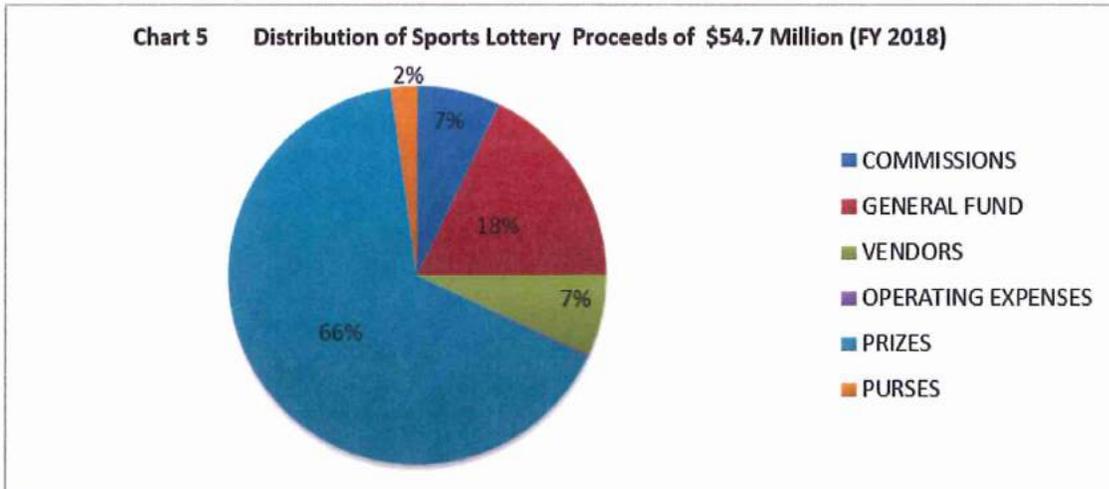
For Fiscal Year 2018, Video Lottery Revenue was distributed as shown in the following chart:



Source: Lottery Internal Records

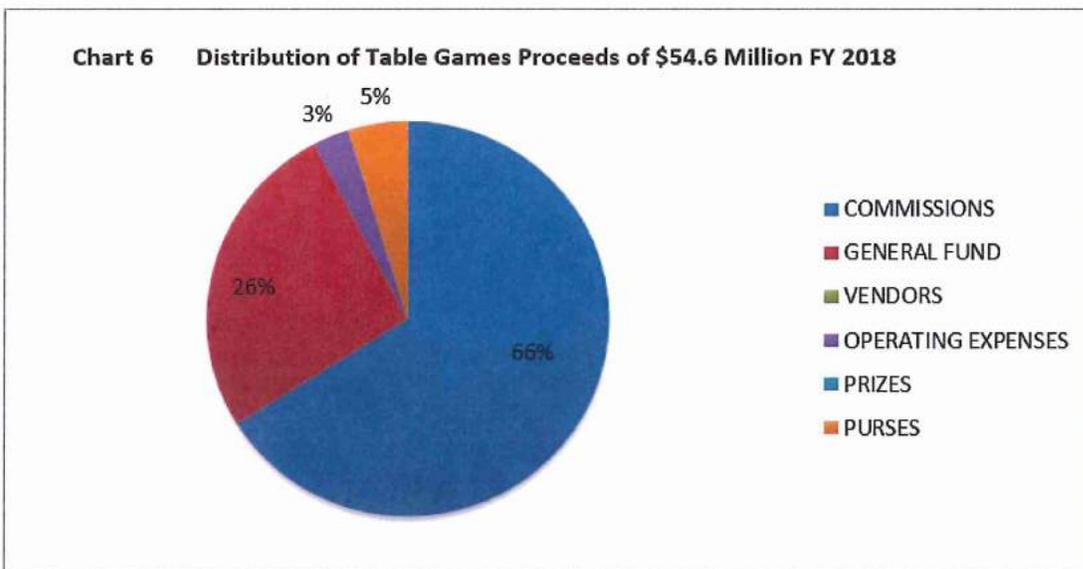
Balances include administrative expenses that have been allocated proportionately to video lottery and charitable gaming venues. Video expired credits and license fees are not included.

For Fiscal Year 2018, Sports Lottery Revenue was distributed as shown in the charts below:



Source: Lottery Internal Records

For Fiscal Year 2018, 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:

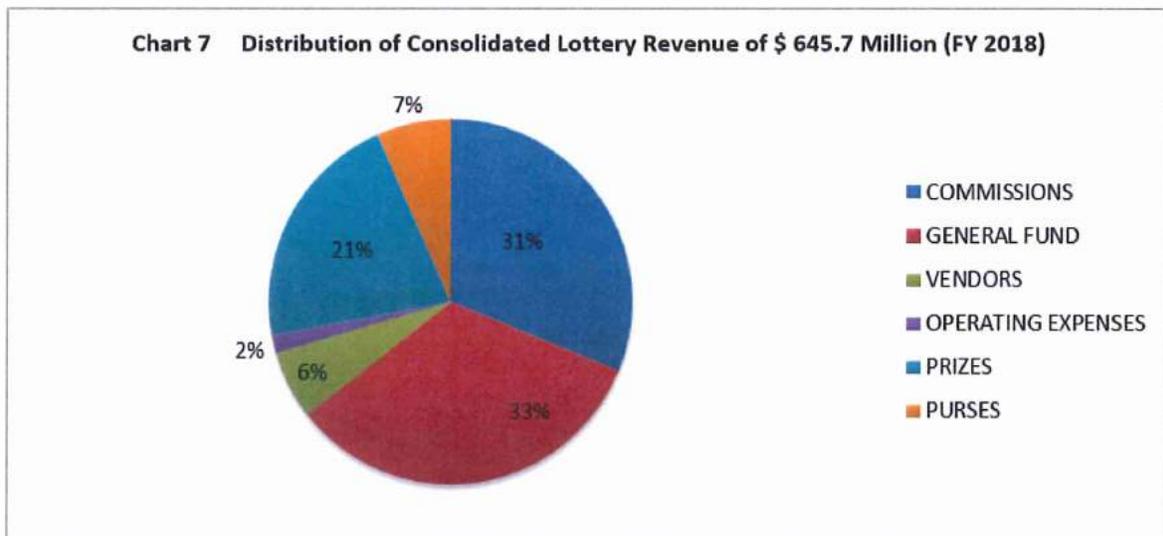
- Public and higher education
- Health and social services
- Public safety
- Judicial and corrections
- Child, youth and family services.

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 2018.



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.

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:

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

Amount owed to the State in the event that the Lottery's Powerball game is discontinued (\$2.5 million at June 30, 2018). This amount has been reserved by MUSL (Multi-State Lottery) that operates the Powerball, Lotto America and Mega Million games. Please see Note 6 of the Notes to Financial Statements under the "Financial Section" of this report.

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

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, 2017. This was the eighteenth consecutive year that the Lottery has achieved this prestigious award. A copy of the certificate for fiscal year 2017 can be seen in this report. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

ACKNOWLEDGMENTS:

This Comprehensive Annual Financial Report for fiscal year 2018 signifies the Delaware State Lottery's commitment to comprehensive disclosure of its financial condition.

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

Respectfully submitted,

DELAWARE STATE LOTTERY



Vernon A. Kirk
Director
Delaware State Lottery



Tina M. Leager
Fiscal Administrative Officer
Delaware State Lottery

DELAWARE STATE LOTTERY
PRINCIPAL OFFICIALS

Governor

John Carney

Secretary of Finance

Richard Geisenberger

Lottery Director

Vernon Kirk

Lottery Deputy Attorney General

Julie Donoghue

Assistant Director of Marketing & Sales

Barbara Hutchins-Miller

Assistant Director of Video Lottery

Jayne Gooden

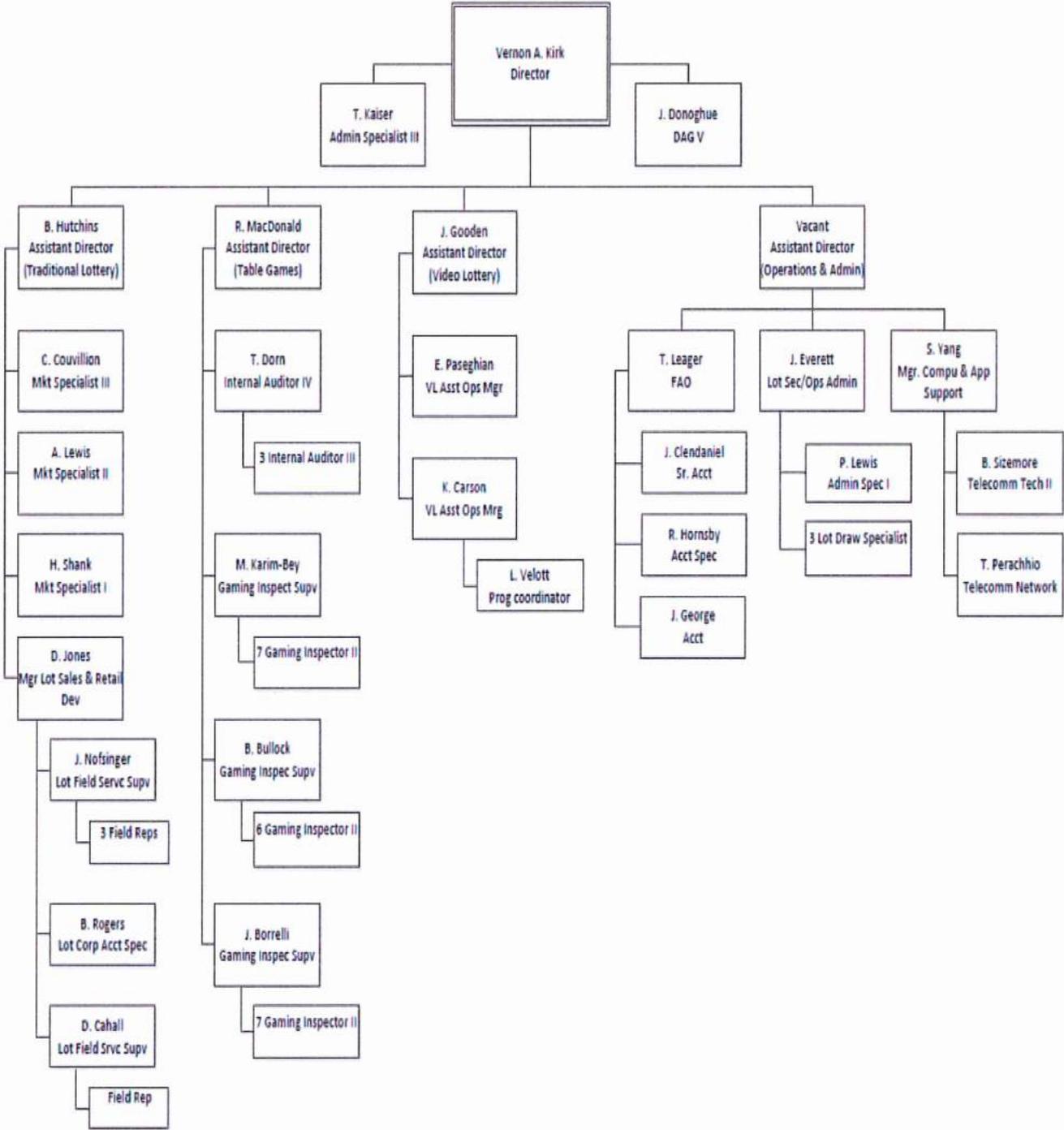
Assistant Director of Table Games

Richard MacDonald

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, 2017

Christopher P. Morill

Executive Director/CEO



Independent Auditor's Report

Vernon Kirk, Director of the Delaware State Lottery, and
Richard Geisenberger, 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, 2018 and 2017, 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, 2018 and 2017, 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, 2018 and 2017, 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 as respect to this matter.

As discussed in Note 1 (d) to the financial statements, in Fiscal Year 2018, the Lottery adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This Statement modifies the Lottery's recognition of its other postemployment benefits and requires a restatement of some June 30, 2017 balances. Our opinion is not modified as respect to this matter.

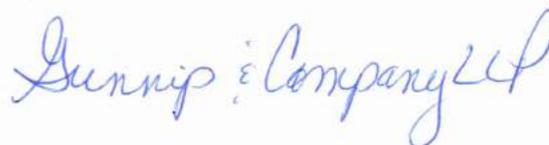
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 28 through 33, schedule of Lottery's proportional share of net pension liability on page 55, schedule of Lottery's pension contributions on page 55, schedule of Lottery's proportional share of net OPEB liability on page 56, and schedule of Lottery's OPEB contributions on page 56 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.

November 30, 2018



DELAWARE STATE LOTTERY
Management's Discussion and Analysis
June 30, 2018 and 2017

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, 2018 and 2017, 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 operation and nonoperation 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, 2018 and 2017

Condensed Net Position

Table 1
(In millions)

Assets	June 30		
	2018	2017	2016
Cash and investments	\$ 5.9	3.8	5.9
Accounts receivable, net of allowance of \$0.8, \$0.8, and \$0.8, respectively	10.8	7.9	6.2
Investments	-	-	0.1
Due from State of Delaware	12.7	12.4	4.7
Deposit with Multi-State Lottery	2.5	2.3	2.3
Total assets	<u>31.9</u>	<u>26.4</u>	<u>19.2</u>
Deferred outflows	<u>1.1</u>	<u>1.3</u>	<u>0.2</u>
Liabilities and Net Position			
Liabilities:			
Prizes liability	6.7	5.1	4.9
Accounts payable and accrued liabilities	6.6	4.7	4.7
Due to the State of Delaware	2.4	0.9	1.5
Pension and OPEB liability	12.1	13.6	4.7
Multi-State Lottery reserve	2.5	2.3	2.3
Total liabilities	<u>30.3</u>	<u>26.6</u>	<u>18.1</u>
Deferred inflows	<u>1.7</u>	<u>0.1</u>	<u>0.3</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 four days in 2016, and five days in 2017 and six days in 2018.

Table 1 above shows that the one extra day of sales in fiscal year 2018 and 2017 allows for an increase in accounts receivable collected over fiscal years 2017 and 2016, respectfully.

Prizes liability as shown in Table 1 has increased in fiscal year 2018 over fiscal year 2017 by \$1.5 million. At least a quarter of the increase is due to the sports lottery expansion, increasing the number of tickets sold increases the amount of winnings.

With the implementation of the Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, the Pension and OPEB liability and the amount due from the State of Delaware increased for fiscal years 2018 and 2017 from fiscal year 2016 to cover such obligations. Since the Lottery is required to send all surplus funds to the State General Fund, any monies required to pay these liabilities would come from the State's General Fund.

DELAWARE STATE LOTTERY
Management's Discussion and Analysis
June 30, 2018 and 2017

Revenue

Table 2
Revenue
(In millions)

	Year ended June 30		
	2018	2017	2016
Play 3	\$ 27.0	27.5	27.7
Play 4	22.8	22.7	22.6
Multi Win Lotto	4.6	4.3	4.6
Powerball	24.6	22.8	30.5
Hot Lotto	1.3	2.7	2.4
Mega Millions	12.1	8.9	9.5
Lotto America	2.1	-	-
Keno	8.7	8.2	8.0
Lucky for Life	3.0	3.4	4.0
Instant games	70.6	69.3	65.7
Traditional games revenue	176.8	169.8	175.0
Video lottery, net	353.8	352.8	360.8
I-Gaming	2.2	2.7	2.6
Video lottery expired jackpots and credit slips	0.4	0.3	0.3
Casino license fees	3.2	3.2	3.2
Sports lottery	54.7	46.1	39.4
Table games, net	54.6	53.1	54.0
Total revenue	\$ 645.7	628.0	635.3

Table 2 above compares revenue for each lottery game category. There is an increase in revenue in fiscal year 2018 of \$17.7 million or 2.8% over fiscal year 2017. Lottery revenue for fiscal year 2017 showed a decrease over fiscal year 2016 by \$7.3 million or 1.1%.

Powerball and Mega Millions sales are typically driven by the size of the jackpot. Mega Millions had a large jackpot in fiscal year 2018 explaining the increase in sales of \$3.2 million or 36% over fiscal year 2017. The lack of higher jackpots in fiscal year 2017 is the cause for the decrease in sales on these games from fiscal year 2016.

An increase of \$1.3 million or 1.9% in fiscal year 2018 over fiscal year 2017 was again a record for the instant product. The increase of \$3.6 million or 5.5% in fiscal year 2017 over fiscal year 2016 was mainly contributed to an increase in the production of \$25 and \$20 scratch tickets.

Sports Lottery expanded at the end of fiscal year 2018 to allow betting on all sports along with single game bets. This expansion led to a significant jump in sales for sports lottery over fiscal year 2017 with an increase of \$8.6 million or 18.7%. Sports lottery had an increase in revenue for fiscal year 2017 over fiscal year 2016 of \$6.7 million or 17.0%. Payouts for sports was at an all-time high, having players re-invest their winnings into more sports tickets.

Table games revenue increased \$1.5 million or 2.8% in fiscal year 2018 over fiscal year 2017. This increase shared the same trends as all lottery product increases for the current fiscal year. Table games revenue showed a slight decline in fiscal year 2017 over fiscal year 2016 of \$0.9 million or 1.7%.

DELAWARE STATE LOTTERY
Management's Discussion and Analysis
June 30, 2018 and 2017

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. Due to a Supreme Court ruling in fiscal year 2018, the Lottery expanded sports lottery to selling tickets from just profession football to all sports and added betting on single games.

Cost of Games

Table 3

Cost of Games

(In millions and as a percentage of all revenue)

	Year ended June 30					
	2018		2017		2016	
Commission expense	\$ 199.9	31.0%	196.7	31.3%	202.4	32.0%
Gaming vendor fees and costs	43.0	6.7%	39.8	6.3%	41.8	6.6%
Prize expense	136.5	21.1%	135.0	21.5%	126.5	20.0%
Total cost of games	<u>\$ 379.4</u>		<u>371.5</u>		<u>370.7</u>	

Table 3 above compares the cost of games for the last three years. Commission expense includes payments to lottery retailers for selling and cashing traditional and sports lottery tickets, and commissions to casinos for the operation of video lottery, internet gaming, sports lottery, and table games. Delaware law allows for the net of sports (sports sales minus sports win) to be used in the calculations for commissions and vendors fees. Commission expense for fiscal year 2018 increase slightly from fiscal year 2017 by \$3.2 million or 1.6%. This increase grew the same percentage as the sales for traditional games. A decrease in commission expense from fiscal year 2016 to fiscal year 2017 of \$5.7 million or 2.8% was mostly due to the large win amounts on sports lottery. Gaming vendor fees and costs include the cost of the central system used to monitor and collect pertinent data for the traditional draw games and the video lottery system, the instant games supplier fees, the cost of leasing video lottery terminals and franchise video games, and the cost incurred by internet gaming for fees and website maintenance. Gaming vendor fees for fiscal year 2018 increased over fiscal year 2017 by \$3.2 million or 8.0%. The increase in vendor fees was due to the fact of the increase in sales and the increase in net revenue of sports lottery. Gaming vendor fees decreased in fiscal year 2017 over fiscal year 2016 of \$2.0 million or 4.8%. This decrease can also be contributed to the increase in sports winners for fiscal year 2017.

DELAWARE STATE LOTTERY
Management's Discussion and Analysis
June 30, 2018 and 2017

Prize Expense, Net of Reversions

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

	Year ended June 30		
	2018	2017	2016
Play 3	\$ 13.1	12.8	14.8
Play 4	11.0	10.3	10.3
Multi Win Lotto	2.8	2.6	2.8
Powerball	12.0	10.7	14.9
Hot Lotto	0.5	1.3	1.2
Mega Millions	6.1	4.6	4.5
Keno	5.2	4.8	4.9
Lucky for Life	1.8	1.6	2.4
Lotto America	1.1	—	—
Sports lottery	36.2	40.2	28.2
Instant games	46.7	46.1	42.5
Total prize expense	\$ 136.5	135.0	126.5

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

The prize expense for fiscal year 2018 increased slightly over fiscal year 2017 by \$1.5 million or 1.1%. Sport lottery prize cost were unusually low for the NFL season and with the expansion into other professional and college sports the liability is predicted to be much more constant over the course of the events. Prize expense for fiscal year 2017 compared to fiscal year 2016 increases \$8.5 million or 6.7%. Sports lottery accounted for the majority of the increase.

DELAWARE STATE LOTTERY
Management's Discussion and Analysis
June 30, 2018 and 2017

Operating Expenses

Table 5
Operating Expenses
(In millions)

	Year ended June 30		
	2018	2017	2016
Operating expenses	\$ 10.4	10.7	10.7

Operating expenses remained relatively unchanged from fiscal year 2016 through fiscal year 2018 with a slight decrease in fiscal year 2018 from spending less in travel, supplies, and capital purchases.

Nonoperating Expenses

Table 6
Nonoperating Expenses
(In millions)

	Year ended June 30		
	2018	2017	2016
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	36.9	35.7	36.8
Department of Health & Social Services	1.6	1.6	1.6
State of Delaware - General Fund	213.3	204.4	211.5
Total nonoperating expenses	\$ 255.8	245.7	253.9

The portion of nonoperating expenses increased in fiscal year 2018 over fiscal year 2017 by \$10.1 million or 4.1%. This increase was in correlation of the increase in sales for the year and the decrease in sports expense. Overall decrease in revenue for fiscal year 2017 vs fiscal year 2016 is the direct correlation for the decrease in nonoperating expenses and contribution to the general fund.

DELAWARE STATE LOTTERY
Basic Statements of Net Position
June 30, 2018 and 2017

Assets	2018	2017
Current assets:		(restated)
Cash and investments	\$ 5,903,324	3,791,602
Accounts receivable, net of allowance of \$833,018 and \$791,748, respectively	10,836,366	7,920,400
Investments – restricted for payment of prize liabilities	-	19,679
Due from the State of Delaware	12,657,006	12,446,099
Total current assets	<u>29,396,696</u>	<u>24,177,780</u>
Noncurrent assets:		
Deposit Multi-State Lottery	2,467,039	2,265,380
Total noncurrent assets	<u>2,467,039</u>	<u>2,265,380</u>
Total assets	<u>31,863,735</u>	<u>26,443,160</u>
Deferred outflows	<u>1,127,219</u>	<u>1,339,348</u>
Liabilities and Net Position		
Current liabilities:		
Prizes liability	6,662,632	5,065,864
Accounts payable and accrued liabilities	6,615,524	4,721,166
Due to the State of Delaware	2,461,534	944,651
Total current liabilities	<u>15,739,690</u>	<u>10,731,681</u>
Noncurrent liabilities:		
Multi-State Lottery reserve	2,467,039	2,265,380
Pension and OPEB liability	12,095,841	13,680,945
Total noncurrent liabilities	<u>14,562,880</u>	<u>15,946,325</u>
Total liabilities	<u>30,302,570</u>	<u>26,678,006</u>
Deferred inflows	<u>1,688,384</u>	<u>104,502</u>
Net position:		
Unrestricted	\$ <u>1,000,000</u>	<u>1,000,000</u>

See accompanying notes to basic financial statements.

DELAWARE STATE LOTTERY

Basic Statements of Revenue, Expenses, and Changes in Net Position
Years ended June 30, 2018 and 2017

	2018	2017
Revenue:		
Video lottery, net	\$ 353,776,920	352,834,117
Video lottery expired jackpots and credit slips	379,558	320,466
Casino license fees	3,221,800	3,172,411
I-Gaming	2,178,023	2,701,931
Sports lottery	54,747,779	46,114,509
Table games, net	54,629,995	53,117,143
Draw games	106,188,593	100,438,292
Instant games	70,599,375	69,284,712
Total revenue	645,722,043	627,983,581
Cost of games:		
Video lottery commissions	149,150,781	148,997,809
Prize costs, net of reversions	136,506,526	134,955,648
Gaming vendor fees and costs	43,009,044	39,826,424
Instant and draw games commissions	10,764,400	10,503,135
Sports lottery commissions	3,913,713	2,153,872
Table games commissions	36,110,427	35,110,431
Total cost of games	379,454,891	371,547,319
Gross margin	266,267,152	256,436,262
Operating expenses:		
Advertising and promotions	3,147,412	3,287,302
Payroll and related benefits	5,506,623	5,758,648
Other general and administrative	1,791,987	1,676,294
Total operating expenses	10,446,022	10,722,244
Operating income	255,821,130	245,714,018
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	251,821,130	241,714,018
Total nonoperating expenses	255,821,130	245,714,018
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, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Receipts from customers	\$ 642,806,077	626,241,119
Payments to vendors for goods and services	(47,712,684)	(45,246,004)
Payments to employees for services	(5,524,150)	(5,736,121)
Payments for prizes	(134,890,079)	(134,833,338)
Payments for commissions	(198,263,195)	(196,314,719)
Net cash provided by operating activities	256,415,969	244,110,937
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	(250,304,247)	(242,271,080)
Net cash used in noncapital financing activities	(254,304,247)	(246,271,080)
Cash flows from investing activity:		
Proceeds from maturity of investments	—	30,224
Net cash provided by investing activity	—	30,224
Net increase (decrease) in cash and investments	2,111,722	(2,129,919)
Cash and investments at beginning of year	3,791,602	5,921,521
Cash and investments at end of year	\$ 5,903,324	3,791,602
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 255,821,130	245,714,018
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
Accounts receivable, net	(2,915,966)	(1,742,462)
Prizes liability	1,616,447	122,310
Accounts payable and accrued liabilities	1,894,358	17,071
Net cash provided by operating activities	\$ 256,415,969	244,110,937

See accompanying notes to basic financial statements.

DELAWARE STATE LOTTERY
Notes to Basic Financial Statements
June 30, 2018 and 2017

(1) Summary of Significant Accounting Policies

(a) Legislative Enactment

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

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

(b) Reporting Entity

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

(c) Basis of Presentation

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

(d) Implementation of GASB Statement

During the fiscal year ending June 30, 2018, the Lottery implemented the requirements for GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions." GASB Statement No. 75 establishes accounting and financial reporting standards that improve governmental postemployment for benefits other than pensions (OPEB) and requires the recognition of the actuarially determined net postemployment other than pension liability for the entity's proportional share of multi-employer cost sharing plans. See further information on the implementation in footnote 11(b).

(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.

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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.

A deferred outflow of resources is reported for employer pension and OPEB contributions made subsequent to the measurement date of the Lottery's net pension and net OPEB liabilities and before the end of the Lottery's current reporting period. These contributions will be recognized as a reduction to the net pension liability and net OPEB liability in the following fiscal year. The other deferred outflows of resources and the deferred inflows of resources will be amortized over either a five or six year period and recognized as a component of pension and OPEB expense.

(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 non-prize 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.

	2018	2017
Receivables:		
Accounts	\$ 11,669,384	8,712,148
Total receivables	11,669,384	8,712,148
Allowance for doubtful accounts	(833,018)	(791,748)
Total receivables, net	\$ 10,836,366	7,920,400
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 the Lottery had on hand have matured.

DELAWARE STATE LOTTERY
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(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, 2018, the Lottery had no new purchases of capital assets and had properly disposed of all old capital assets.

(j) Revenue Recognition

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

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

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

(k) Prize Obligations

Prize obligations for the traditional draw games and sports lottery are determined and recognized after each drawing or sports game is held. For the 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, Lotto America, and Mega Millions, 50% of the revenues are allocated to the prize pool.

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

(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, 2018. 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

DELAWARE STATE LOTTERY
Notes to Basic Financial Statements
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June 30, 2018 and 2017, the Lottery had liabilities of \$229,406 and \$242,713 for accrued vacation and \$221,760 and \$238,033 for accrued sick leave, respectively.

(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	
	2018	2017
On hand and in bank	\$ 3,461,584	2,047,753
Pooled cash and investments	2,441,740	1,743,849
Total cash balances	\$ 5,903,324	3,791,602

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:

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

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

The bank balance of deposits was not subject to custodial credit risk as all amounts were either fully insured and/or collateralized. As of June 30, 2018 and June 20, 2017, the total bank balance of cash in all bank accounts was \$3,461,584 and \$2,047,753 respectively.

(3) Investments

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

(a) Interest Rate Risk

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

(b) Credit Risk and Concentration of Credit Risk

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

(4) Capital Assets

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

(5) Prize Obligations

The following is a reconciliation of changes in the prizes liability account, which includes the present value of prize installment obligations, for the fiscal years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Prize obligations, beginning of year	\$ 5,065,864	4,943,554
Prize payments	(134,909,758)	(134,833,338)
Prize costs, net of reversions	136,506,526	134,955,648
Prize obligations, end of year	<u>\$ 6,662,632</u>	<u>5,065,864</u>

DELAWARE STATE LOTTERY
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(6) Participation in the Multi-State Lottery

The Lottery is a member of the Multi-State Lottery (the MUSL), which operates traditional draw games on behalf of participating state lotteries. Each MUSL member sells game tickets through its agents and makes weekly wire transfers to the MUSL in an amount equivalent to the member's share of the estimated grand prize liability. Each MUSL member pays lesser prizes directly to the winners. The MUSL operates the Powerball game since fiscal year 2008 and the Mega Millions game since 2010. They recently added Lotto America in 2018. Participating lotteries are required to maintain deposits with MUSL for contingency reserves to protect MUSL from unforeseen prize liabilities. The money in this reserve fund is refundable to MUSL members if the MUSL disbands or if a member leaves the MUSL Board. The MUSL has an agreement that grants MUSL the nonexclusive right to offer the 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, 2018 and 2017, equaled \$2,467,039 and \$2,265,380 respectively. These amounts are also reported as a liability on the Lottery's balance sheet because they represent the amount to be paid to the State's General Fund upon separation from the MUSL, if the MUSL is not required to use any portion of the Lottery's reserves held by the MUSL.

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

In March 1998, an amendment to the Legislation was passed by the General Assembly that established the Delaware 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.

DELAWARE STATE LOTTERY
Notes to Basic Financial Statements
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(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, 2018 and 2017, the Lottery made the following contributions to the State.

	June 30	
	2018	2017
Amounts transferred and to be transferred to the State for the fiscal year:		
General Fund	\$ 213,325,651	204,389,911
Department of Health and Social Services	1,584,083	1,570,598
Department of Agriculture	36,911,396	35,753,509
	\$ 251,821,130	241,714,018

DELAWARE STATE LOTTERY
Notes to Basic Financial Statements
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(9) Revenue and Expenses by Game

The following revenue was recognized:

	Year ended June 30	
	2018	2017
Draw games:		
Play 3 Day	\$ 10,491,733	10,737,859
Play 3 Night	16,530,817	16,798,003
Play 4 Day	8,564,019	8,590,011
Play 4 Night	14,217,965	14,162,692
Multi Win Lotto	4,559,172	4,268,594
Powerball	24,577,701	22,774,734
Hot Lotto	1,300,792	2,655,062
Lotto America	2,129,759	-
Mega Millions	12,072,786	8,877,979
Delaware Cash 5	-	-
Keno	8,721,480	8,168,946
Lucky for Life	3,022,369	3,404,412
Total draw games	<u>106,188,593</u>	<u>100,438,292</u>
Instant games	<u>70,599,375</u>	<u>69,284,712</u>
Total traditional lottery	176,787,968	169,723,004
Video lottery, net	353,776,920	352,834,117
I-Gaming video lottery, net	2,178,023	2,701,931
Video lottery expired jackpots and credit slips	379,558	320,466
Casino license fees	3,221,800	3,172,411
Sports lottery	54,747,779	46,114,509
Table games, net	<u>54,629,995</u>	<u>53,117,143</u>
Total revenue	<u>\$ 645,722,043</u>	<u>627,983,581</u>

DELAWARE STATE LOTTERY
Notes to Basic Financial Statements
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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, 2018:							
Revenue	\$ 353,776,920	2,178,023	54,747,779	54,629,995	106,188,593	70,599,375	642,120,685
Other income	3,601,358	—	—	—	—	—	3,601,358
Prize costs, net of reversions	—	—	36,199,716	—	53,621,285	46,685,525	136,506,526
	357,378,278	2,178,023	18,548,063	54,629,995	52,567,308	23,913,850	509,215,517
Commissions expense	149,150,781	—	3,913,713	36,110,427	6,546,770	4,217,630	199,939,321
Contribution margin per game	208,227,497	2,178,023	14,634,350	18,519,568	46,020,538	19,696,220	309,276,196
Game vendor fees	27,253,703	1,782,125	3,842,631	—	6,155,206	3,975,379	43,009,044
Gross margin	\$ 180,973,794	395,898	10,791,719	18,519,568	39,865,332	15,720,841	266,267,152
Year ended June 30, 2017:							
Revenue	\$ 352,834,117	2,701,931	46,114,509	53,117,143	100,438,292	69,284,712	624,490,704
Other income	3,492,877	—	—	—	—	—	3,492,877
Prize costs, net of reversions	—	—	40,180,913	—	48,688,872	46,085,863	134,955,648
	356,326,994	2,701,931	5,933,596	53,117,143	51,749,420	23,198,849	493,027,933
Commissions expense	148,997,809	—	2,153,872	35,110,431	5,962,305	4,540,830	196,765,247
Contribution margin per game	207,329,185	2,701,931	3,779,724	18,006,712	45,787,115	18,658,019	296,262,686
Game vendor fees	27,132,325	1,805,691	1,223,740	—	5,783,694	3,880,974	39,826,424
Gross margin	\$ 180,196,860	896,240	2,555,984	18,006,712	40,003,421	14,777,045	256,436,262

(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 2018 and fiscal year 2017, the Lottery incurred \$5,506,623 and \$5,758,648 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.

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

Benefits Provided

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

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

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

Employee Contributions

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

Employer Contributions

Employer contributions are determined by the Board of Pension Trustees. For the year ended June 30, 2017 and 2016, the rate of the employer contribution was 9.56 percent of covered payroll. The Lottery's employer contributions for the years ended June 30, 2017 and 2016 was \$236,800 and \$242,448, respectively. The Lottery's required contributions equaled actual contributions made for the years ended June 30, 2017 and 2016.

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Net Pension Liability and Expense

At June 30, 2018 and 2017, the Lottery reported a net pension liability of \$1,860,152 and \$1,999,680, respectively, for its proportionate share of the net pension liability of the State of Delaware. The net pension liability was measured as of June 30, 2017, 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, 2016 to June 30, 2017. At June 30, 2017, the Lottery's proportion was 0.1269 percent, which was a decrease of 0.0058 percent from its proportion measured as of June 30, 2016. For the years ended June 30, 2018 and 2017, the Lottery recognized a pension expense of \$359,712 and \$291,012.

Deferred Outflows and Inflows of Resources

At June 30, 2018 and 2017, the Lottery reported deferred outflows of resources of \$253,999 and \$236,800, respectively, 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, 2018 and 2017, the Lottery reported deferred outflows of resources related to pensions from the following sources:

	<u>2018</u>	<u>2017</u>
Net difference between projected and actual investment earnings	\$ 217,458	\$ 623,256
Difference between actual and expected experience	21,474	-
Changes in assumptions	365,495	185,175
Contributions subsequent to the date of measurement	253,999	236,800
	<u>\$ 858,426</u>	<u>\$ 1,045,231</u>

At June 30, 2018 and 2017, the Lottery reported deferred inflows of resources related to pensions from the following sources:

	<u>2018</u>	<u>2017</u>
Difference between actual and expected experience	\$ 32,796	\$ 43,863
Changes in proportions	91,693	60,639
	<u>\$ 124,489</u>	<u>\$ 104,502</u>

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

Year Ending June 30	
2019	\$ 43,613
2020	249,416
2021	166,590
2022	(18,724)
2023	39,043
	\$ 479,938

Actuarial Assumptions

The total pension liability as of June 30, 2017 and June 30, 2016 measurement dates was determined by an actuarial valuation as of June 30, 2016 and June 30, 2015, with update procedures used to roll forward the total pension liability to June 30, 2017 and June 30, 2016, respectively. These actuarial valuations used the following actuarial assumptions for both years:

Investment Return -7.0%, includes inflation at 2.5%

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

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

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 recommendation of the actuary and adopted by the State Board of Pension Trustees based on the most recent review of the Plan’s experience completed in 2016. Key assumption changes included a reduction in the inflation assumption for 3.0% to 2.5% and a change to use updated mortality tables. 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 are summarized in the following table:

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<u>Asset class</u>	Long-term expected real rate of return	Asset allocation
Domestic equity	5.7%	33.5%
International equity	5.7%	13.7%
Fixed income	2.0%	26.6%
Alternative investments	7.8%	22.7%
Cash and equivalents	-	3.5%

Discount Rate

The discount rate used to measure the total pension liability as of June 30, 2017 was 7.0%. The change in the discount rate assumption from 7.2% as of June 30, 2016 was due to an adoption by the Board of Trustees in fiscal year 2017. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at rates determined by the Board of Pension Trustees, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the net pension liability as of June 30, 2017, calculated using the discount rate of 7.0%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

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

The following presents the net pension liability as of June 30, 2016, calculated using the discount rate of 7.2%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	1% decrease <u>6.2%</u>	Current discount rate <u>7.2%</u>	1% increase <u>8.2%</u>
Lottery's proportionate share of the net pension liability	<u>\$ 3,475,692</u>	<u>\$1,999,680</u>	<u>\$ 758,749</u>

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Pension Plan Fiduciary Net Position

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

Net Position – Pension

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

(b) Other Postemployment Benefits (OPEB)

The Lottery contributes to the State Employees' Other Postemployment Benefits Fund Trust (OPEB Trust) established by the State to provide benefits for state employees. The OPEB Trust is a cost-sharing multiple employer defined benefit plan established in the Delaware Code. Policy for and management of the OPEB Trust benefits provided to retirees are the responsibility of the State. Beginning in FY 18, the OPEB Trust prepares separate financial statements and is administered by the Delaware Public Employees' Retirement System (DPERS). All details of the OPEB Trust can be obtained by writing to the State Board of Pension Trustees and Office of Pensions, McArdle Building, Suite #1, 860 Silver Lake Boulevard, Dover, Delaware 19904-2402.

Benefits Provided

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

Contributions

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

For the year ended June 30, 2018, the rate of the employer contribution was 11.7 percent of covered payroll. The Lottery's employer contributions for the years ended June 30, 2018 and 2017 was \$268,793 and \$294,117, respectively. The Lottery's required contributions equaled actual contributions made for the years ended June 30, 2018 and 2017.

DELAWARE STATE LOTTERY
Notes to Basic Financial Statements
June 30, 2018 and 2017

Net OPEB Liability and Expense

At June 30, 2018 and 2017, the Lottery reported a net Other Postemployment Benefits (OPEB) liability of \$10,235,689 and \$11,681,265, respectively, for its proportionate share of the net OPEB liability of the State of Delaware. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the Plan's total OPEB liability as of June 30, 2016 to June 30, 2017. At June 30, 2017, the Lottery's proportion is based on the percentage of actual employer contributions during the period ending June 30, 2017 and 2016, respectively. The Lottery's proportion was 0.1240 percent, which was a decrease of 0.0046 percent from its proportion measured as of June 30, 2016. For the year ended June 30, 2018, the Lottery recognized an OPEB expense of \$412,436.

Deferred Outflows and Inflows of Resources

At June 30, 2018 and 2017, the Lottery reported deferred outflows of resources of \$268,793 and \$294,117, respectively, for its contributions subsequent to the measurement date, which will be recognized as a reduction of the net OPEB liability in the following year.

At June 30, 2018 and 2017, the Lottery reported deferred outflows of resources related to OPEB from the following sources:

	<u>2018</u>	<u>2017</u>
Contributions subsequent to the date of measurement	<u>\$ 268,793</u>	<u>\$ 294,117</u>

At June 30, 2018 and 2017, the Lottery reported deferred inflows of resources related to OPEB from the following sources:

	<u>2018</u>	<u>2017</u>
Net difference between projected and actual investment earnings	\$ 20,267	\$ -
Changes in assumptions	1,194,939	
Changes in proportions	<u>348,689</u>	<u>-</u>
	<u>\$ 1,563,895</u>	<u>\$ -</u>

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

Year Ending June 30	
2019	\$ (313,792)
2020	(313,792)
2021	(313,792)
2022	(313,792)
2023	<u>(308,727)</u>
	<u>\$ (1,563,895)</u>

DELAWARE STATE LOTTERY
Notes to Basic Financial Statements
June 30, 2018 and 2017

Actuarial Assumptions

The total OPEB liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total OPEB liability to June 30, 2017. The total OPEB liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of June 30, 2015, with update procedures used to roll forward the total OPEB liability to June 30, 2016. These actuarial valuations used the following actuarial assumptions.

<u>Actuarial assumptions:</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Discount Rate	3.58%	2.85%
Projected Salary increases	3.25% + Merit	3.25% + Merit
Healthcare cost trends rates	7.00%	Not Available*

**Rate not available for the years prior to the GASB No. 75 measurement date. The rate was 7.0%, decreasing 0.2% per year to an ultimate rate of 4.0% for 2032 and later years.*

Mortality rates were based on the sex-distinct RP-2014 Total Dataset Healthy Annuitant Mortality Table, including adjustment for healthy annuitant and disabled annuitant factors for each covered pension plan. Future mortality improvements are projected to 2020.

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

The long-term expected rate of return on 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 arithmetic real rates of return for each major asset class included in the expected asset allocation are summarized in the following table:

<u>Asset class</u>	<u>Long-term expected real rate of return</u>	<u>Asset allocation</u>
Domestic equity	3.75%	36.7%
International equity	3.75%	19.2%
Fixed income	3.75%	38.1%
Cash and equivalents	0.00%	6.0%

DELAWARE STATE LOTTERY
Notes to Basic Financial Statements
June 30, 2018 and 2017

Discount Rate

The discount rate used to measure the total OPEB liability was 2.85% at the beginning of the current measurement period and 3.58% at the end of the current measurement period, based on the Bond Buyer GO 20-Bond Municipal Bond Index, an index satisfying the GASB requirements of an index rate for 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and the employer contributions to the OPEB will continue to follow the pay-as-you-go contribution policy. Based on the assumptions of a pay-as-you-go plan, the discount rates used for June 30, 2017, and 2016 measurement dates are equal to the applicable rate of the 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher, and satisfying GASB requirements.

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

	1 % Decrease <u>2.58%</u>	Discount Rate <u>3.58%</u>	1% Increase <u>4.58%</u>
Lottery's proportionate share of the OPEB liability	\$12,272,624	\$10,235,689	\$8,647,782

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

	1 % Decrease <u>6.0%</u>	Discount Rate <u>7.0%</u>	1% Increase <u>8.0%</u>
Lottery's proportionate share of the OPEB liability	\$8,666,222	\$10,235,689	\$12,157,385

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.

Restatement and Net Position – OPEB

With the implementation of GASB Statement No 75 in fiscal year 2018, the Lottery restated the June 30, 2017 balances for deferred outflows and the net pension liability to retroactively reflect the implementation at the earliest date presented in the financial statements. Accordingly, the June 30, 2017 balances have been restated for deferred outflow and the net OPEB liability by \$294,117, and \$11,681,265 respectively. 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.

DELAWARE STATE LOTTERY
Notes to Basic Financial Statements
June 30, 2018 and 2017

(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 5.371% of draw game sales, 4.18% of PHD sales, 9.95% of Keno sales, 5.6% of instant sales, 1% of video net gaming revenue, and 25% of net win for charitable gaming video machines to its central system provider through October 2022. For video lottery terminals, the lottery is committed to a range of 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 12.5% 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 Schedule of Contributions

Proportionate Share of Net Pension Liability

Measurement date	6/30/2017	6/30/2016	6/30/2015	6/30/2014	6/30/2013
Lottery's proportion of the net pension liability	0.1269%	0.1327%	0.1327%	0.1370%	0.1407%
Lottery's proportion of the net pension liability - dollar value	\$ 1,860,152	\$ 1,999,680	\$ 1,999,680	\$ 911,588	\$ 518,009
Lottery's covered employee payroll	\$ 2,472,103	\$ 2,530,772	\$ 2,530,772	\$ 2,555,038	\$ 2,589,613
Lottery's proportionate share of the net pension liability as a percentage of its covered employee payroll	75.2%	79.0%	79.0%	35.7%	20.0%
Plan fiduciary net position as a percentage of the total pension liability	85.4%	84.1%	84.1%	92.7%	95.8%

Contributions

Contractually required contributions	\$ 236,800	\$ 242,448	\$ 242,448	\$ 244,307	\$ 245,999
Contributions in relation to the contractually required contributions	\$ 236,800	\$ 242,448	\$ 242,448	\$ 244,307	\$ 245,999
Contribution excess (deficit)	\$ -	\$ -	\$ -	\$ -	\$ -
Lottery's covered employee payroll	\$ 2,472,103	\$ 2,530,772	\$ 2,530,772	\$ 2,555,038	\$ 2,589,613
Contribution as a percentage of covered employee payroll	9.56%	9.56%	9.56%	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.

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

Proportionate Share of Net Pension Liability

Measurement date	<u>6/30/2017</u>	<u>6/30/2016</u>
Lottery's proportion of the net OPEB liability	0.1240%	0.1286%
Lottery's proportion of the net OPEB liability - dollar value	\$ 10,235,689	\$ 11,681,265
Lottery's covered employee payroll	\$ 2,472,103	\$ 2,530,772
Lottery's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	414.0%	461.6%
Plan fiduciary net position as a percentage of the total OPEB liability	4.13%	3.30%

Contributions

Contractually required contributions	\$ 294,117	\$ 279,887
Contributions in relation to the contractually required contributions	\$ 294,117	\$ 279,887
Contribution excess (deficit)	<u>\$ -</u>	<u>\$ -</u>
Lottery's covered employee payroll	\$ 2,472,103	\$ 2,530,772
Contribution as a percentage of covered employee payroll	11.90%	11.06%

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

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

Notes to Schedule:

Benefit Changes. There were no changes in benefits during the year.

Changes in Assumptions The discount rate used to measure the OPEB liability as of June 30, 2016 was 2.85%. The discount rate used to measure the OPEB liability as of June 30, 2017 was 3.58%. In developing the projection of cash flows to determine the discount rate, it was assumed the employer contributions will continue to follow the pay-as-you-go contribution policy.

STATISTICAL SECTION

Delaware Lottery Games **\$25**

\$250 GRAND

WINNING NUMBERS

YOUR NUMBERS

Match any of YOUR NUMBERS to any of the WINNING NUMBERS, win prize shown for that number. Reveal a "🎰" symbol, win DOUBLE the PRIZE shown for that symbol. Reveal a "8" symbol, win \$100 automatically!

TOP PRIZE \$250,000!

00001-000 00001-000

Delaware Lottery Games **\$10**

CASH BLAST

TOP PRIZE \$50,000!

Match any of YOUR NUMBERS to any of the WINNING NUMBERS, win prize shown. Reveal a "🎰" symbol, win \$100 automatically. Reveal the word "CASH", win 10 times the prize shown!

WINNING NUMBERS

YOUR NUMBERS

20 CHANCES TO WIN!

000

Delaware Lottery Games **\$5**

EXTRA Play

SCRATCH THE BACK FOR EXTRA GAME!

Match any of YOUR NUMBERS to any of the WINNING NUMBERS, win prize shown. Get the word "PLAY", win 5 times the prize shown.

WINNING NUMBERS

YOUR NUMBERS

TOP PRIZE \$15,000!

000

Delaware Lottery Games **\$20**

CASH FEVER

TOP PRIZE \$150,000!

Match any of YOUR NUMBERS to any of the WINNING NUMBERS, win prize shown. Reveal the word "LIVE", win ALL 25 prizes shown.

WINNING NUMBERS

YOUR NUMBERS

WIN UP TO 25 TIMES!

001

STATISTICAL SECTION

TABLE OF CONTENTS

Employee & Retailer Demographics

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

Delaware Demographics and Economic Information

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

Financial Trend Data

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

Revenue Capacity Data and Operation Information

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

Delaware State Lottery Historical Data

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

U.S. Lottery Statistics

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

Debt Capacity Data

The Delaware State Lottery has no Legislative debt limit.

Exhibit I

Number of Full Time Equivalent Employees

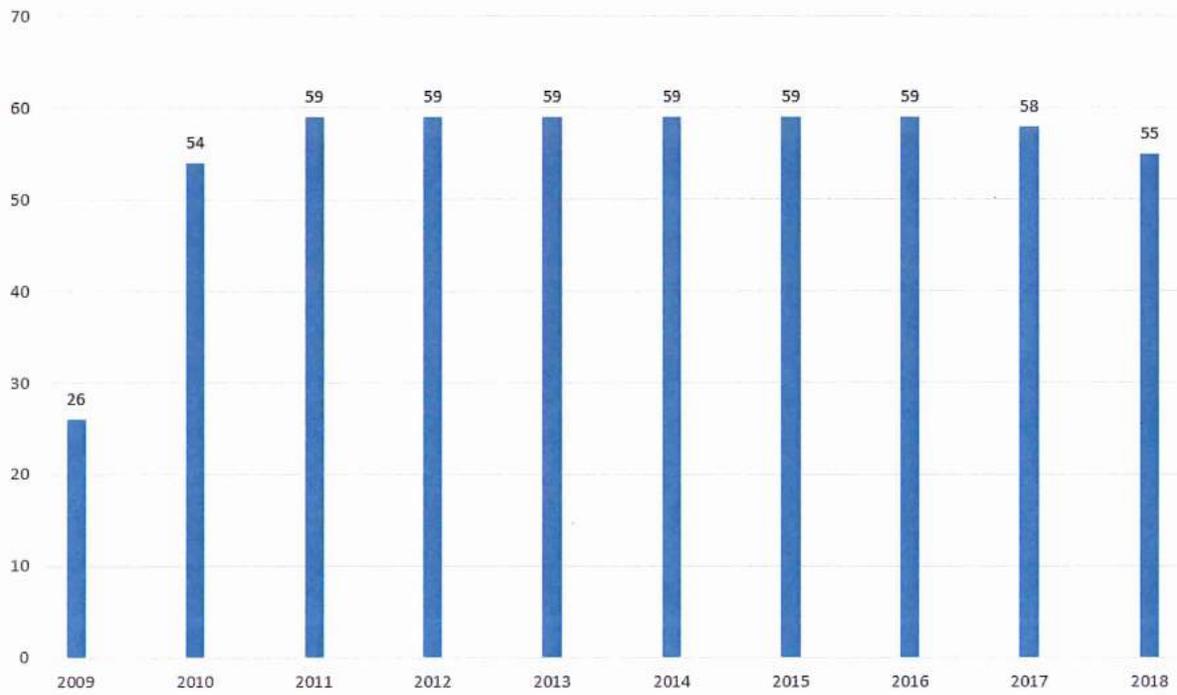


Exhibit II

Number of Retailers

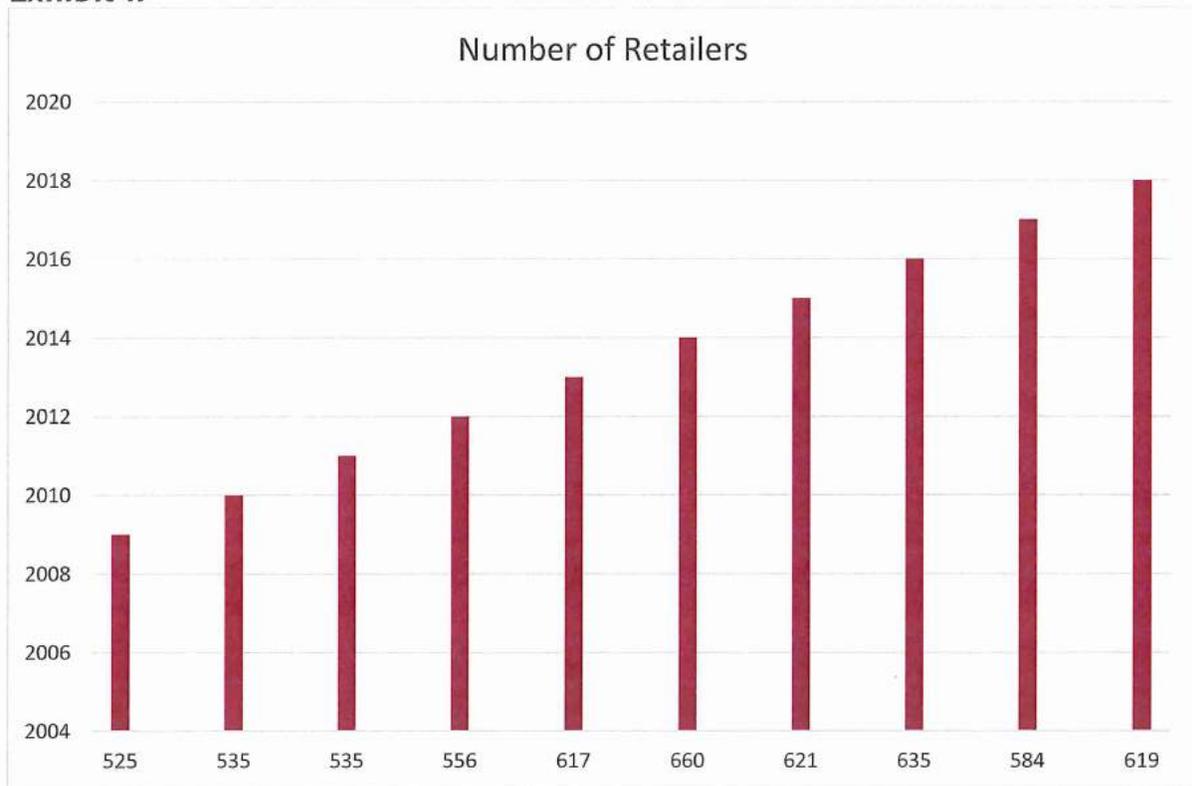


EXHIBIT III

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

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Population										
State	884	892	900	908	917	926	935	946	952	962
Percentage Change	1.4%	0.9%	0.9%	0.9%	1.0%	0.9%	1.0%	1.2%	0.6%	1.1%
National	304,094	306,772	309,326	311,583	313,874	316,129	318,857	321,419	323,128	325,719
Percentage Change	1.0%	0.9%	0.8%	0.7%	0.7%	0.7%	0.9%	0.8%	0.5%	0.8%
Total personal income										
State (in millions)	36,590	36,423	36,860	38,768	40,379	41,487	43,392	45,012	45,917	47,782
Percentage Change	2.5%	-0.5%	1.2%	5.2%	4.2%	2.7%	4.6%	3.7%	2.0%	4.1%
National (in billions)	12,429	12,080	12,418	13,190	13,873	14,151	14,683	15,711	16,116	16,820
Percentage Change	3.7%	-2.8%	2.8%	6.2%	5.2%	2.0%	3.8%	7.0%	2.6%	4.4%
Delaware Labor Force										
Civilian labor force	445,127	439,322	436,052	437,956	441,127	443,020	462,415	482,629	478,257	486,675
Employed	423,448	404,570	401,214	405,452	409,796	413,260	440,762	462,455	455,526	467,549
Unemployed	21,679	34,752	34,838	32,504	31,331	29,760	21,653	20,174	22,731	19,126
Unemployment rate	4.9%	7.9%	8.0%	7.4%	7.1%	6.7%	4.7%	4.2%	4.8%	3.9%

Sources:

Population is provided by the Bureau of Census, U.S. Department of Commerce (<http://factfinder2.census.gov/>) through estimates released in December 2017
 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 2017
 Delaware Department of Labor, Office of Occupational and Labor Market Information (<http://lmi.delawareworks.com/Content/Unemployment>) Oct 2018

Exhibit IV

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

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue - Video Lottery, net	\$581,137,252	\$552,895,090	\$517,490,815	\$486,807,041	\$400,140,558	\$367,030,380	\$360,964,815	\$364,280,324	\$356,326,994	\$357,378,278
Revenue - I-Gaming - Video						\$1,374,944	\$1,773,149	\$2,559,090	\$2,701,931	\$2,178,023
Revenue - Traditional Lottery	123,170,990	122,943,197	123,939,356	134,685,576	144,108,404	148,370,099	149,817,606	175,040,937	169,723,004	176,787,968
Revenue - Sports Lottery		10,815,721	12,910,308	17,846,827	25,422,927	31,511,881	37,857,048	39,398,130	46,114,509	54,747,779
Revenue - Table Games		2,998,441	74,165,548	74,963,837	65,591,850	52,537,492	51,455,977	54,010,328	53,117,143	54,629,995
Total revenue	704,308,242	689,652,449	728,506,027	714,303,281	635,263,739	600,824,796	601,868,595	635,288,809	627,983,581	645,722,043
Total cost of games	381,351,243	343,862,671	373,555,714	373,878,198	346,106,879	332,467,983	347,266,684	370,690,457	371,547,319	379,454,891
Gross profit	322,956,999	345,789,778	354,950,313	340,425,083	289,156,860	268,356,813	254,601,911	264,598,352	256,436,262	266,267,152
Total operating expenses	6,599,557	9,586,801	11,054,570	11,363,136	11,360,971	10,920,844	10,640,462	10,733,694	10,722,244	10,446,022
Operating income	316,357,442	336,202,977	343,895,743	329,061,947	277,795,889	257,435,969	243,961,449	253,864,658	245,714,018	255,821,130
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	312,083,174	331,609,108	339,895,743	325,061,947	273,795,889	253,435,969	239,961,449	249,864,659	241,714,018	251,821,130
Change in net position	211,089	593,869	0	0	0	0	0	0	0	0
Net position at beginning of year	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	1,000,000
Net position at end of year	406,131	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Net investment in Capital Assets	3,767	2,260	753	0	0	0	0	0	0	0
Unrestricted	402,364	997,740	999,247	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Total Net Position	\$406,131	\$1,000,000								

Exhibit V

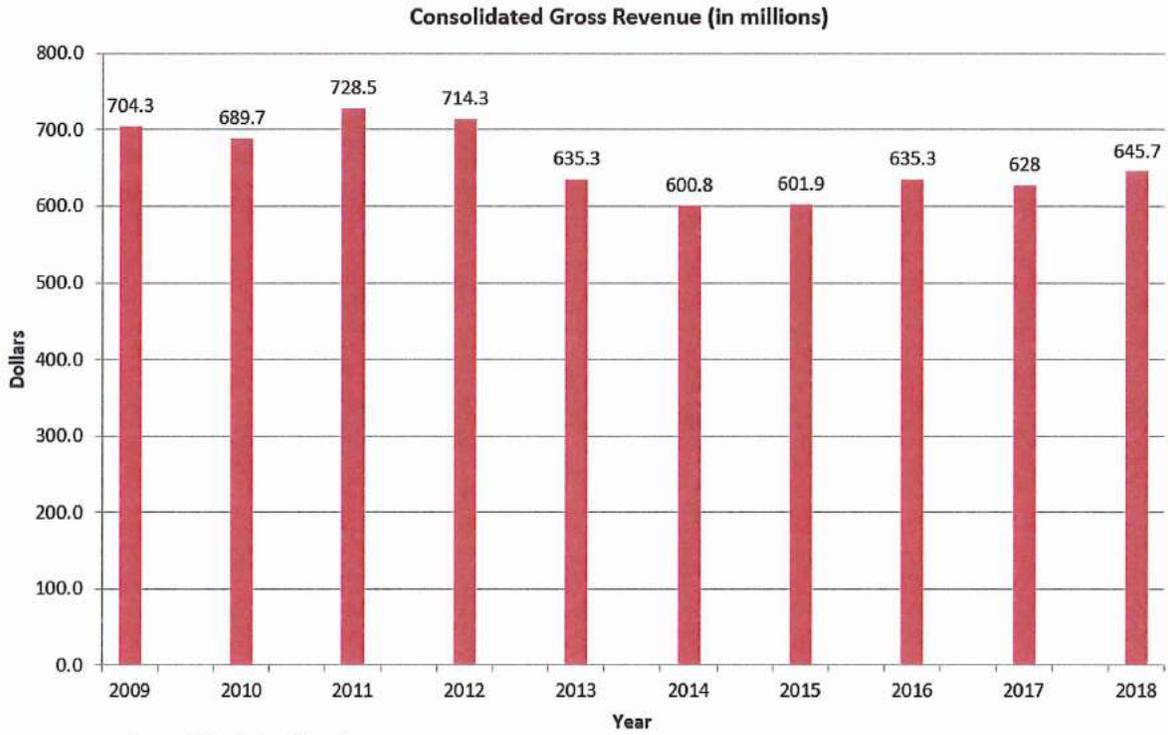


Exhibit VI

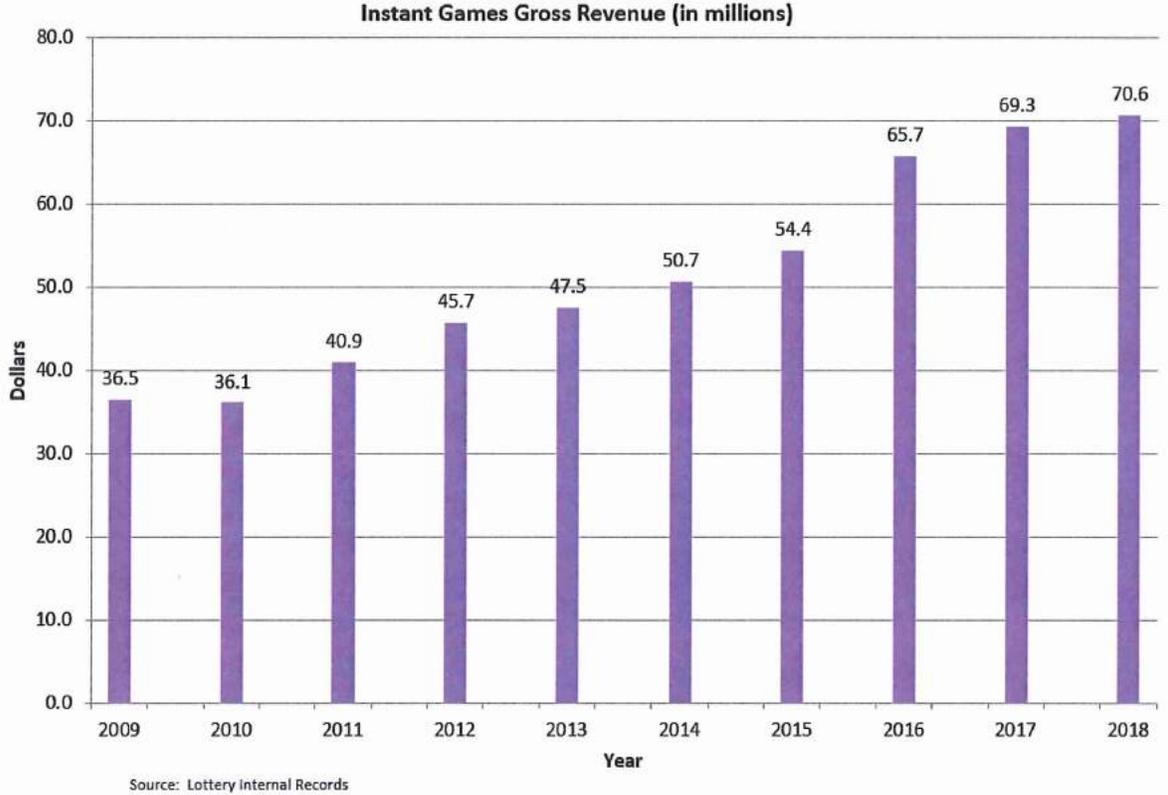
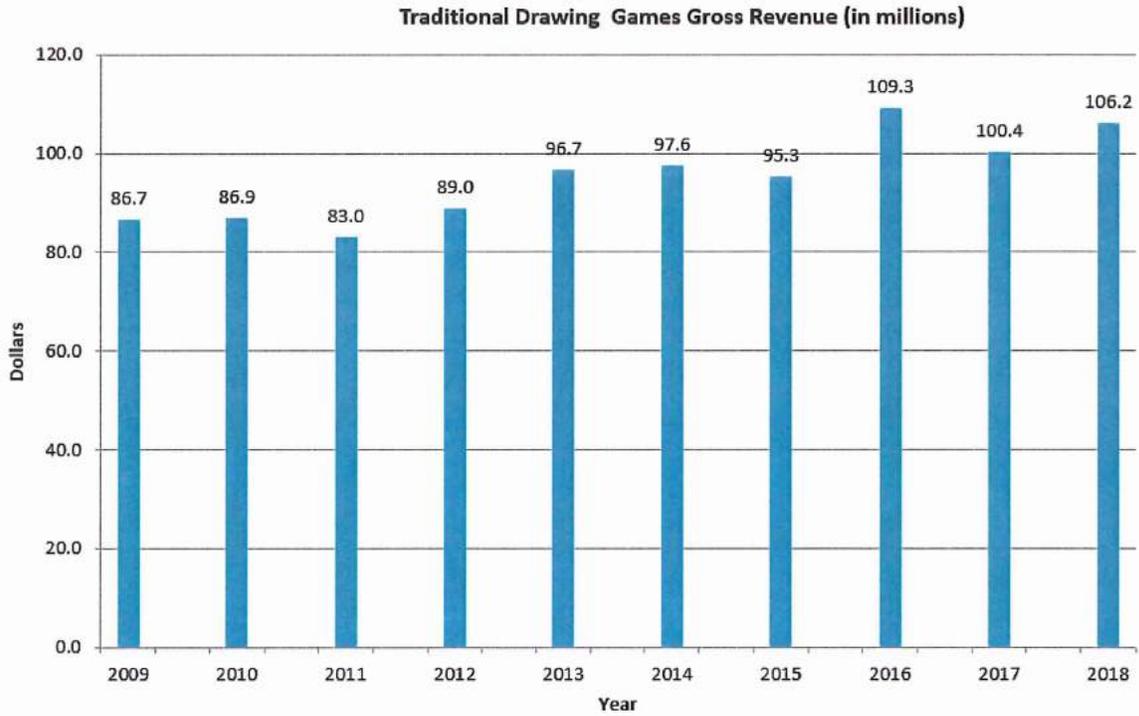
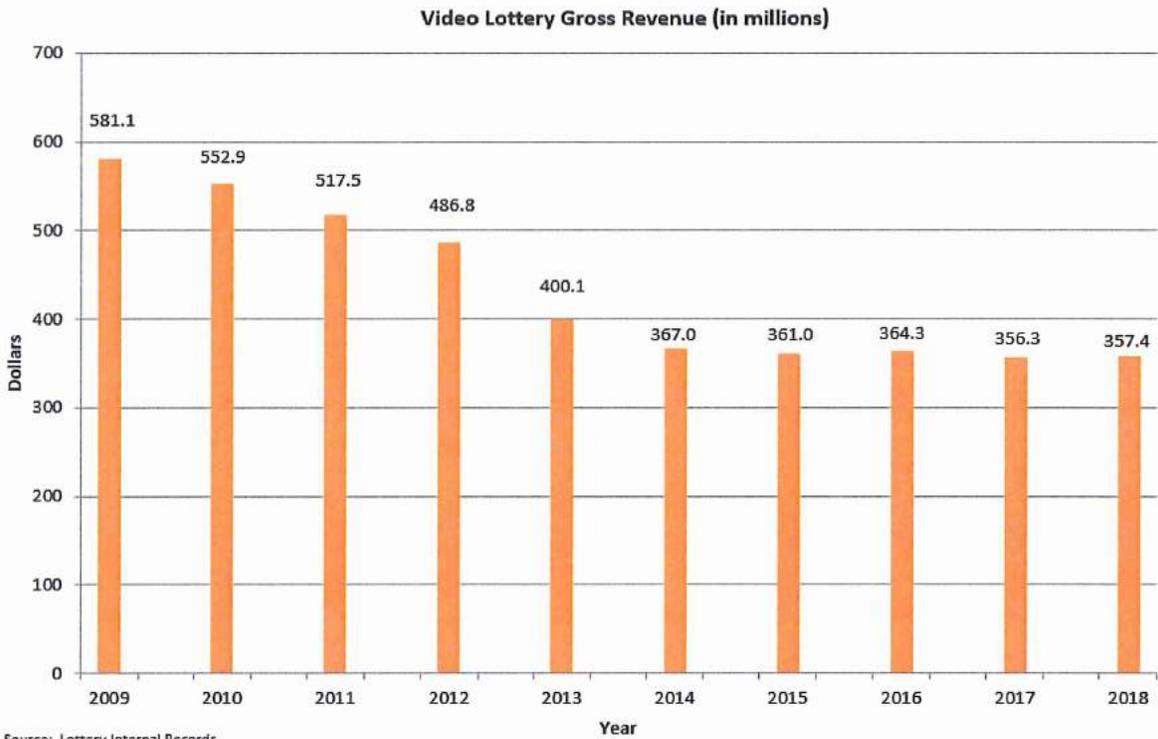


Exhibit VII



Source: Lottery Internal Records

Exhibit VIII



Source: Lottery Internal Records

Exhibit IX

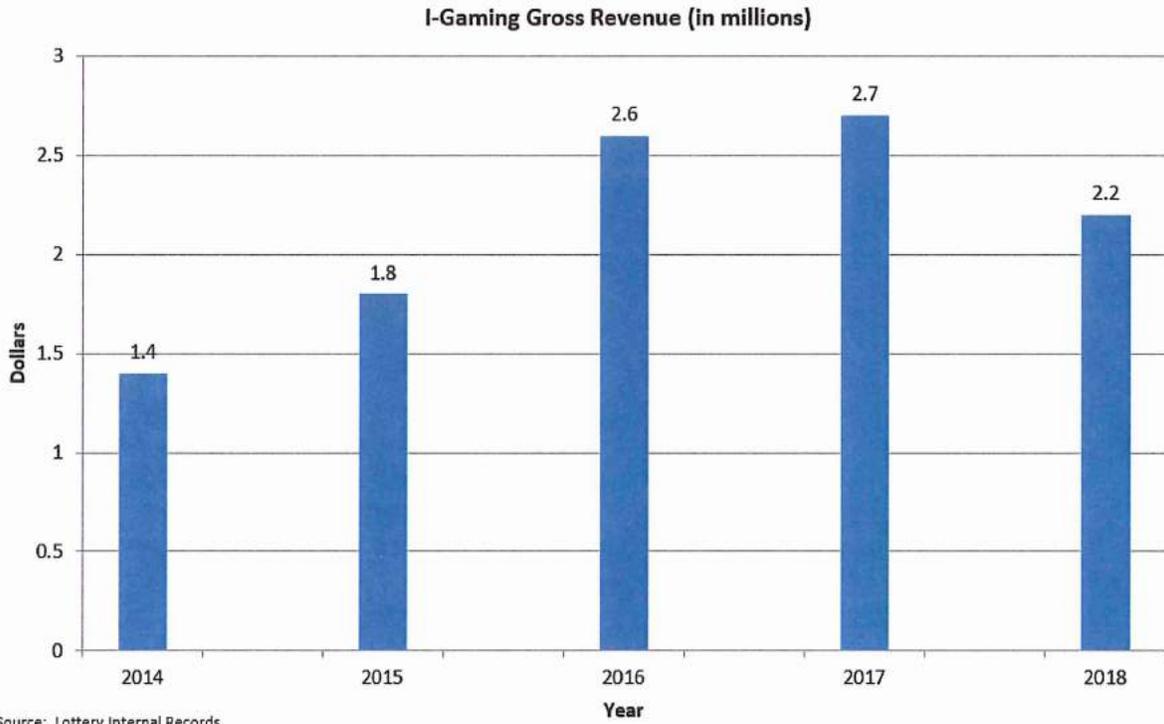


Exhibit X

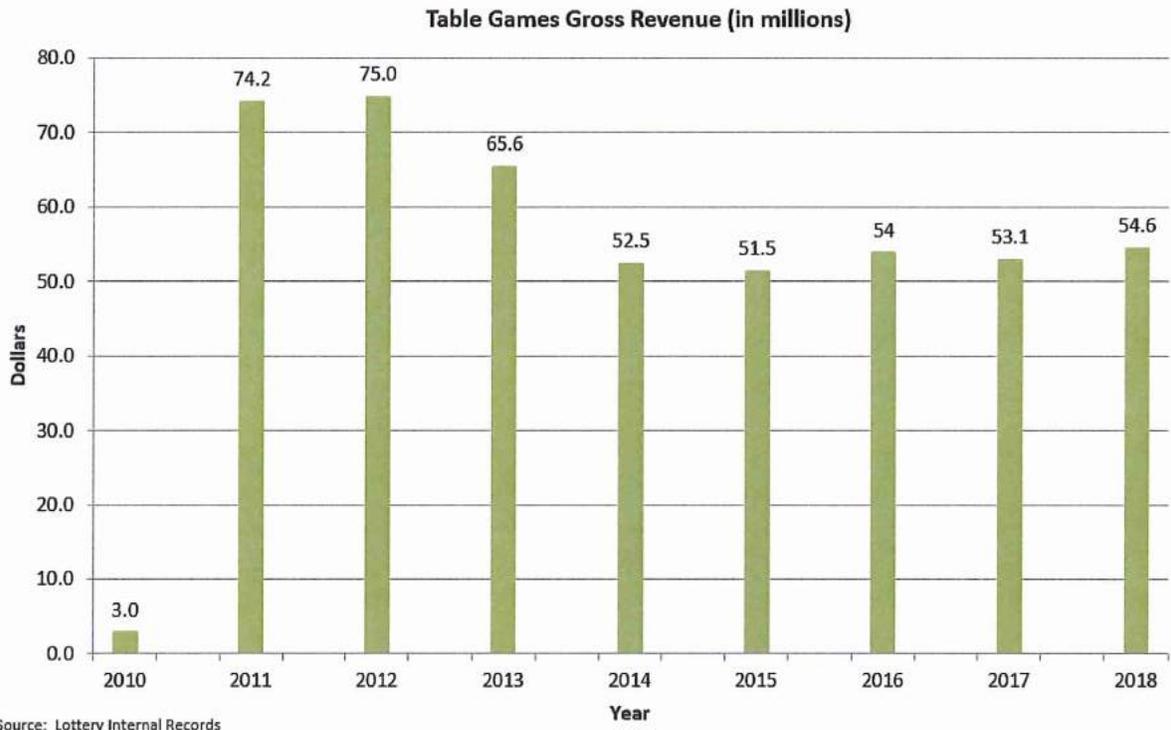
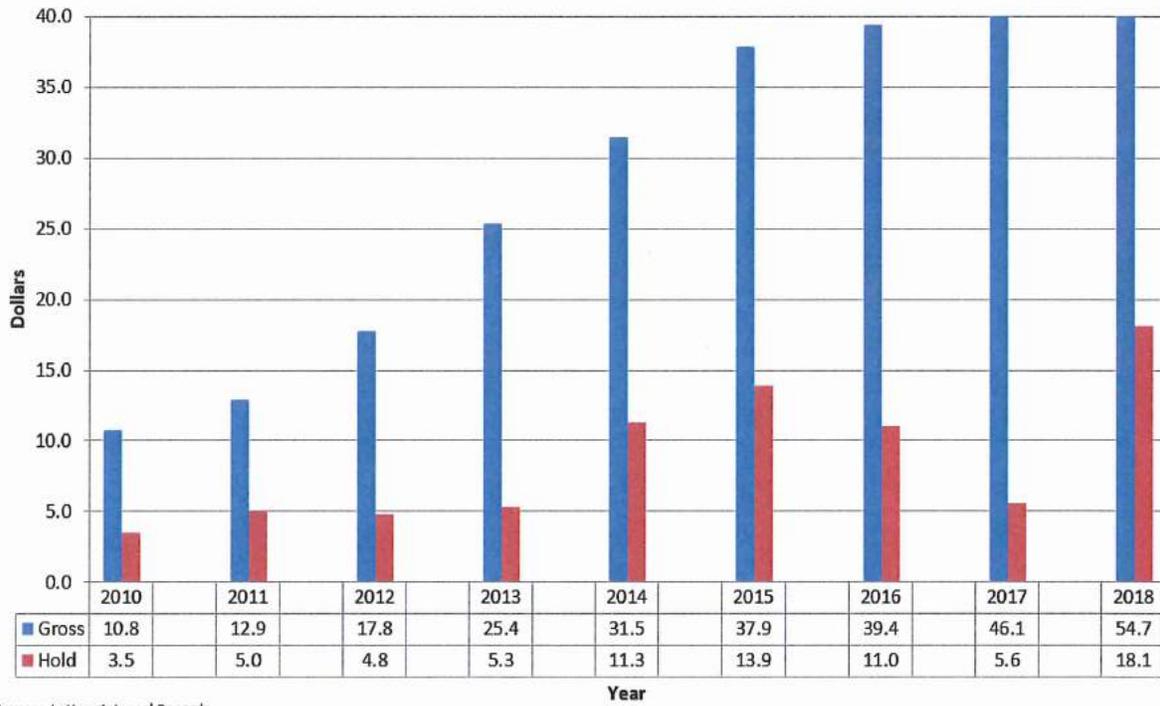


Exhibit XI

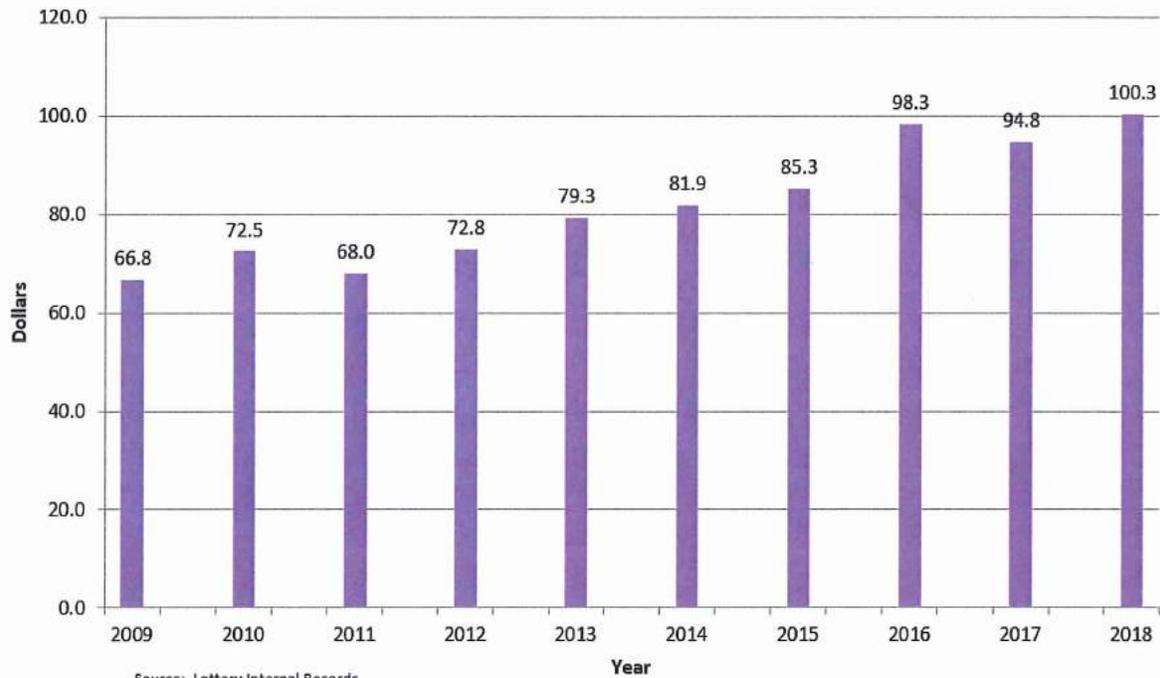
Sports Lottery Gross Revenue & Hold (in millions)



Source: Lottery Internal Records

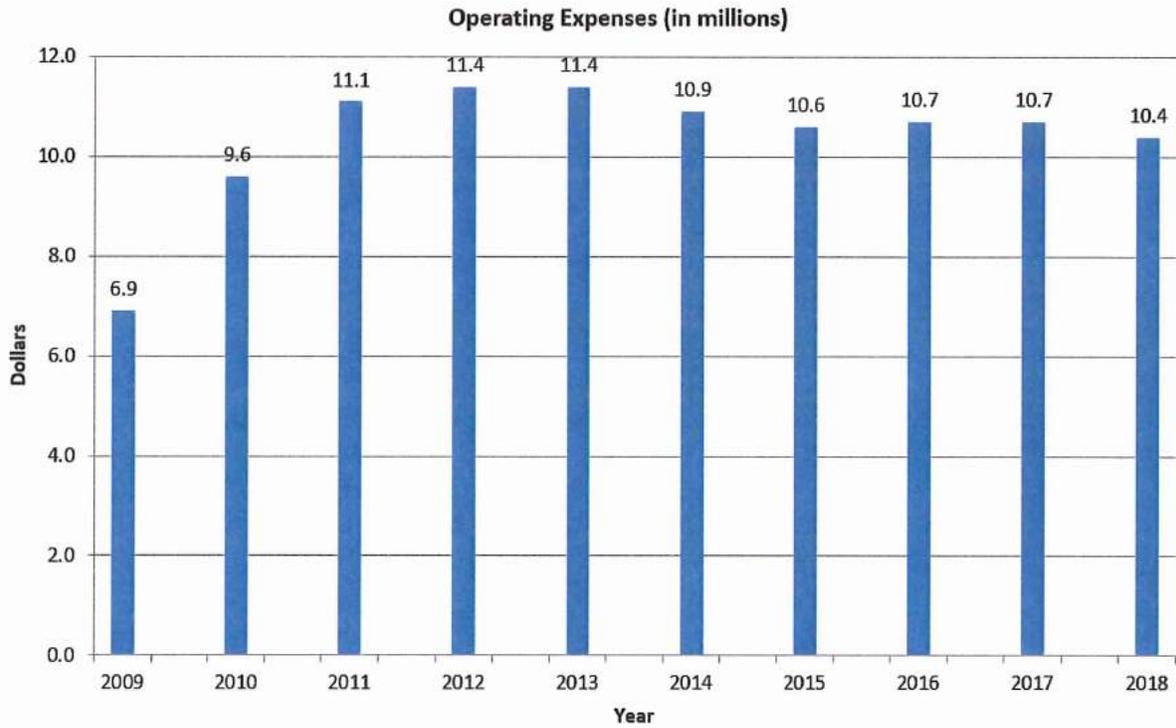
Exhibit XII

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



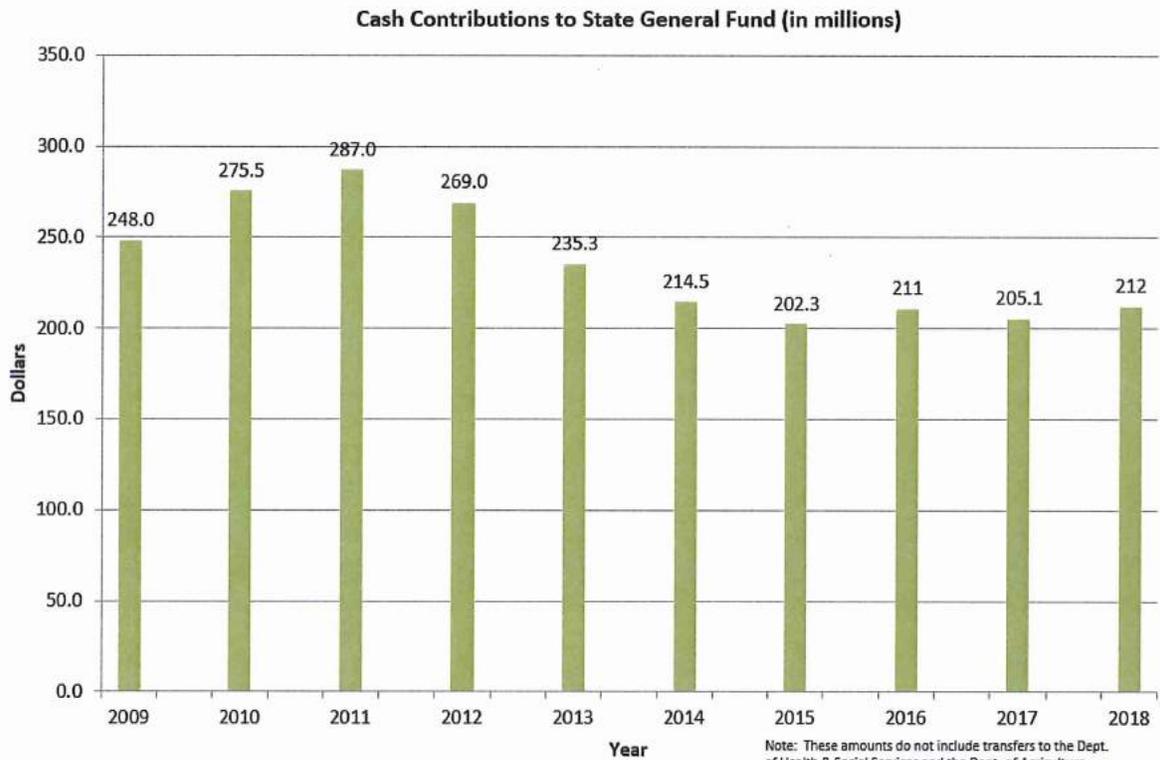
Source: Lottery Internal Records

Exhibit XIII



Source: Lottery Internal Records

Exhibit XIV



Source: Lottery Internal Records

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

Exhibit XV

**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
2017	628.0	69.3	100.4	355.8	99.2	94.8	10.7	205.1
2018	645.7	70.6	106.2	359.6	109.4	100.3	10.4	212.0
Totals	15,041.2	992.4	2,890.7	10,395.1	760.1	2,079.1	381.7	5,190.1

Exhibit XVI

U.S. Lotteries'
Comparison of Sales by Game
Fiscal Years 2018 and 2017
(in \$millions)

GAME SALES (MILLIONS)	2018	2017	% INCREASE (DECREASE)
INSTANT	\$47,930.3	\$45,119.0	2.97%
PULL TAB	99.2	93.1	4.72%
3-DIGIT	5,575.1	5,529.2	-0.40%
4-DIGIT	4,624.0	4,501.5	0.86%
LOTTO	3,700.0	3,683.6	-2.41%
POWERBALL	4,940.9	4,388.0	-31.84%
MEGA MILLIONS	3,140.8	2,237.9	-8.28%
FOR LIFE	461.4	431.2	9.75%
KENO	4,417.3	3,946.3	3.61%
VLT (VIDEO LOTTERY)	6,533.8	6,259.6	3.16%
OTHER	1,050.9	974.0	58.27%
TOTAL	\$82,473.7	\$77,267.2	-0.38%

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

EXHIBIT XVII

U.S. Lotteries' Unaudited Fiscal Year 2018 Sales by Game
(in \$millions)

State	Population (M)	Instant	Pull Tab	3-Digit	4-Digit	Lotto	Cash Lotto	Powerball	Mega Millions	for Life	ITG	QUICK DRAW	Other	Total Sales	PC Sales
AZ	6.9	710.9	8.7	11.7		62.6		118.5	60.9		8.1			981.4	142
AR	3.0	407.6		7.7	4.5	7.9		36.7	19.6	2.9	12.7			499.6	167
CA	39.3	5,088.8		149.4	29.8	429.9		537.0	434.6			307.6		6,977.1	178
CO	5.5	407.5		12.2		50.0		88.2	38.4	15.7		0.0		612.0	111
CT	3.6	730.7		121.6	120.9	56.0		88.1	42.2	19.6		86.4	2.1	1,267.6	352
DC	0.7	49.1		40.3	53.3			11.1	6.8	2.2	11.8	15.4	22.2	212.2	303
DE	1.0	70.6		27.0	22.8	4.6	3.4	24.6	12.1	3.0		8.8	54.7	231.6	232
FL	20.6	4,652.3		366.1	259.3	578.6		474.0	220.6	59.2	17.8	0.0	72.9	6,700.8	325
GA	10.3	3,163.4		525.4	282.6	127.2		155.9	125.6	9.8	9.5	190.9	7.4	4,597.7	446
ID	1.7	146.9	45.4	2.4	0.0	3.5	2.7	33.1	13.6	3.3	11.1		3.1	265.1	156
IL	12.8	1,880.5		278.1	248.8	228.4		161.2	125.0	0.0			6.5	2,928.5	229
IN	6.6	935.0		36.4	35.0	89.3		108.1	45.9	5.4	11.8		3.1	1,270.0	192
IA	3.1	244.3	10.9	7.7	4.3	0.0	8.6	58.5	21.3	5.6	9.7		0.0	370.9	120
KS	2.9	171.6		7.1	0.0	11.9	9.6	40.1	17.3	6.0		14.2	6.5	284.3	98
KY	4.4	613.1		149.7	43.5	17.7		77.9	39.8	7.8		82.8	10.3	1,042.6	237
LA	4.7	217.2		52.1	48.7	34.9		96.2	41.9	0.0				491.0	104
ME	1.3	219.1		5.6	4.4	1.5	15.6	24.1	8.7	3.7	6.1			288.8	222
MD	6.0	750.9		235.4	296.2	54.3		111.2	88.6	13.2		484.0		2,033.8	339
MA	6.8	3,651.3	0.7		325.2	111.2		127.3	88.9	24.2		1,011.6		5,340.4	785
MI	9.9	1,465.3	32.4	363.0	460.6	107.6		127.0	129.3	14.6	75.0	646.8	122.1	3,543.7	358
MN	5.5	411.2		17.7	0.0	28.4	12.5	75.4	26.0	6.6	11.7	0.0	7.0	596.5	108
MO	6.1	907.3		78.7	52.4	58.8		103.6	48.4	8.0		57.4	0.0	1,314.6	216
MT	1.0	18.6			0.0	7.6	2.7	13.6	4.9	2.7	3.8		3.2	57.1	57
NE	1.9	100.8		5.5	0.0	17.3	1.9	38.6	15.0	4.3				183.4	97
NH	1.3	239.0		5.5	4.9	0.0	12.1	35.8	16.8	5.2	3.3	8.3		330.9	255
NJ	8.9	1,852.3		421.3	267.2	223.0		231.8	180.3	41.3	29.3	53.0		3,299.5	371
NM	2.1	72.3		5.6	0.0	7.7	4.8	29.6	13.2	0.0	0.8	0.0	0.1	134.1	64
NY	19.7	4,178.5		887.3	927.0	309.5		408.1	311.8	94.0		793.2	29.6	7,939.0	403
NC	10.1	1,782.8		317.1	145.1	65.4		168.7	78.6	19.2		28.5		2,605.4	258
ND	0.8				0.0	0.0	7.5	14.3	6.3	3.2		0.0		31.3	39
OH	11.6	1,600.6		340.1	205.1	87.4		148.1	120.1	20.7	164.5	432.7	40.8	3,160.1	272
OK	3.9	127.6		5.3	0.0	4.7	9.2	49.6	22.8	2.0		0.0		221.2	57
OR	4.1	130.4			1.6	41.7		60.1	30.1	0.0		102.0	2.5	368.4	90
PA	12.8	2,824.2		270.4	220.7	250.4		272.7	133.9	17.8	114.4	7.6	88.3	4,200.4	328
RI	1.1	98.7	0.0	0.0	23.2	4.5		30.2	13.3	5.0		82.4	1.0	258.3	235
SC	5.0	1,260.6		213.1	101.1	23.9		93.2	45.5	12.7				1,750.1	350
SD	0.9	30.2		0.0	0.0	3.3	2.8	14.4	4.7	2.6				58.0	64
TX	27.9	4,406.2		259.8	113.4	280.1		294.8	259.0	0.0				5,613.3	201
VT	0.6	102.0		1.3	1.2	0.0	5.0	10.1	4.5	1.7	6.5			132.3	221
VA	8.4	1,184.6		296.6	302.7	46.5		130.8	110.4	15.2	45.4		7.5	2,139.7	255
WA	7.3	507.9		18.9	0.0	73.9		72.9	54.7				5.7	734.0	101
WV	1.8	99.2		7.9	4.7	4.8	5.3	36.5	14.9	0.0		3.6	0.0	176.9	98
WI	5.8	419.4	1.0	23.9	13.9	70.7		98.2	39.5				0.8	667.4	115
WY	0.6				0.0	9.8		10.8	5.3	2.9				28.8	48
Total	300.5	47,930.5	99.1	5,574.9	4,624.1	3,596.5	103.7	4,940.7	3,141.1	461.3	553.3	4,417.2	497.4	75,939.8	253

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

EXHIBIT XVIII

U.S. Lotteries' Unaudited Fiscal Year 2017 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	VL*
AZ	6.9	632.8	7.8	11.1		56.5		102.4	41.4					852.0	123	
AR	3.0	368.5		7.1	4.2	7.4		32.8	14.3	2.9			12.3	449.5	150	
CA	39.3	4,587.2		145.6	29.5	461.4		449.9	294.5			255.8	20.7	6,244.7	159	
CO	5.5	380.2		11.0		49.3		73.0	25.8	16.0				555.3	100	
CT	3.6	720.6		121.8	118.3	55.2		78.6	29.1	20.4			72.2	1,216.3	340	
DC	0.7	51.5		41.9	55.8		1.0	10.4	5.3	2.3			8.1	218.6	321	
DE	1.0	69.3		27.5	22.8	4.3	2.7	22.8	8.9	3.4			8.3	169.8	178	346.4
FL	20.6	4,243.6		348.7	249.3	618.1		434.3	147.4	28.8	11.4		74.9	6,156.5	299	
GA	10.3	3,117.2		553.7	278.4	142.7		127.4	90.4	11.2			189.7	4,528.9	439	
ID	1.7	137.1	40.1	2.3		2.6	2.5	28.5	9.2	3.4	3.0			239.6	142	
IL	12.8	1,871.9		262.4	229.1	225.0		151.3	96.7		7.8			2,844.0	222	
IN	6.6	897.1		36.3	35.1	83.3		97.9	32.7	7.0			13.1	1,202.6	181	
IA	3.1	237.7	11.3	7.3	3.9		11.4	54.3	15.0	5.6			5.8	352.3	112	
KS	2.9	164.3		6.8		16.4	9.0	36.9	12.3	4.2	4.0	15.5	2.7	272.2	94	
KY	4.4	603.8		145.3	44.7	16.7		72.1	29.1	7.8			75.8	1,000.5	225	
LA	4.7	206.3		52.3	47.3	35.8		85.0	28.3					455.0	97	
ME	1.3	212.4		5.3	4.3	3.8	13.9	20.8	6.0	3.9				270.4	203	
MD	6.0	676.8		239.2	291.6	49.4		100.1	66.3	16.2		303.2	180.4	1,923.2	320	885.9
MA	6.8	3,518.6	0.7		324.6	118.7		116.9	58.8	24.7		915.0		5,077.8	745	
MI	9.9	1,282.2	32.2	366.8	422.0	142.6		126.9	106.2	14.2	0.0	638.2	89.8	3,221.1	324	
MN	5.5	398.3		17.4		24.3	14.1	64.8	17.1	7.7	7.0		12.8	563.5	102	
MO	6.1	869.5		74.4	48.3	52.4		95.1	31.6	7.8		56.8		1,235.9	203	
MT	1.0	17.1				6.4	2.6	12.0	3.5	2.8	3.0		5.2	52.7	51	
NE	1.9	101.3		5.1		17.0	2.0	37.0	11.2					173.5	91	
NH	1.3	223.6		5.8	5.0		12.4	31.7	10.9	5.1			3.0	297.5	223	
NJ	8.9	1,839.6		429.5	273.4	227.7		213.4	135.5	40.6			26.8	3,186.7	356	
NM	2.1	72.4		5.4		7.1	4.3	26.3	9.7				0.9	126.0	61	
NY	19.7	4,058.6		884.7	913.1	308.9		345.8	247.1	90.2		818.4		7,666.8	388	1,619.3
NC	10.1	1,695.2		306.0	135.8	68.3		148.5	54.3	19.9				2,428.1	239	
ND	0.8						6.9	12.6	4.4	3.7				27.6	36	
OH	11.6	1,526.3		339.6	201.0	84.7		129.8	93.3	19.9	3.2	395.3	204.3	2,997.4	258	926.6
OK	3.9	68.0		5.4		5.1	8.5	46.3	18.2					151.5	39	
OR	4.1	126.5			1.5	37.5		44.9	17.9		2.5	101.5		332.2	81	914.1
PA	12.8	2,726.6		283.8	229.6	241.3		252.6	94.4	22.5	18.8		131.3	4,001.0	313	
RI	1.1	94.2	0.0		23.9	4.0		29.4	9.4	5.1		83.0	1.0	249.9	237	482.4
SC	5.0	1,189.7		196.2	97.2	20.8		82.6	34.8	14.4				1,635.7	330	
SD	0.9	26.1				2.9	3.1	13.4	3.5	0.2				49.2	57	212.4
TX	27.9	3,941.3		255.5	100.9	277.0		270.7	154.8					5,000.2	179	
VT	0.6	96.3		1.3	1.2		4.7	9.1	3.4	1.8			4.5	122.4	196	
VA	8.4	1,117.7		276.6	291.9	44.9		112.7	84.4	15.3	6.6		39.9	1,989.9	237	
WA	7.3	472.3		17.7		78.0		59.8	38.6			5.8		672.2	92	
WV	1.8	94.4		8.1	4.8	4.9	4.8	34.5	11.1			3.8		166.5	91	872.6
WI	5.8	384.8	1.0	24.1	13.0	71.1		82.0	26.0		0.8			602.8	104	
WY	0.6					10.0		10.7	5.2	2.1				28.1	48	
Total	300.5	45,119.0	93.1	5,529.2	4,501.5	3,683.6	103.8	4,388.0	2,237.9	431.2	68.0	3,946.3	906.0	71,007.6	236	6,259.6

Source: La Fleur's Magazine, Sept/Oct 2017