

**DELAWARE STATE LOTTERY**

Basic Financial Statements

June 30, 2021 and 2020

(With Independent Auditors' Reports Thereon)

# DELAWARE STATE LOTTERY

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## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Delaware State Lottery (the Lottery), an enterprise fund of the State of Delaware, as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lottery, an enterprise fund of the State of Delaware as of June 30, 2021 and 2020, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 1, the financial statements present only the Lottery and do not purport to, and do not present fairly the financial position of the State of Delaware as of June 30, 2021 and 2020, the changes in financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

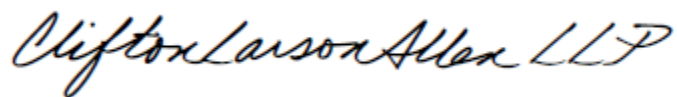
***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8, and the required supplementary information on pages 27 and 28 as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with Government Auditing Standards, we have also issued our report dated November 5, 2021, on our consideration of the Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Lottery's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Lottery's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Baltimore, Maryland  
November 5, 2021

## **DELAWARE STATE LOTTERY**

### Management's Discussion and Analysis

June 30, 2021 and 2020

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, 2021 and 2020, which should be read in conjunction with the Lottery's financial statements.

#### **Overview of the Financial Statements**

The discussion and analysis are intended to serve as an introduction to the Lottery's financial statements. Since the Lottery is an enterprise fund of the State of Delaware (the State), 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), revenues are recorded when earned and expenses are recorded as they are incurred, regardless of when the cash is received or disbursed.

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

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

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

Notes to the financial statements contain additional information and offer explanations to the 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, 2021 and 2020

#### Condensed Statement of Net Position

**Table 1**  
(In millions)

Assets & Deferred Outflows	June 30		
	2021	2020	2019
Cash and investments	\$ 13.0	2.2	4.7
Accounts receivable	6.5	14.0	12.4
Due from State of Delaware	13.0	13.3	12.6
Deposit with Multi-State Lottery	2.5	2.6	2.8
Total assets	35.0	32.1	32.5
Deferred outflows	3.4	1.6	1.0
<b>Liabilities, Deferred Inflows and Net Position</b>			
Liabilities:			
Prizes liability	7.8	6.7	8.5
Accounts payable and accrued liabilities	10.2	9.1	6.9
Due to the State of Delaware	0.5	-	0.7
Pension and OPEB liability	13.8	11.6	11.4
Multi-State Lottery reserve	2.5	2.6	2.8
Total liabilities	34.8	30.0	30.3
Deferred inflows	2.6	2.7	2.2
Net position:			
Unrestricted	\$ 1.0	1.0	1.0

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 seven days in 2019, nine days in 2020 and six days in 2021.

In Table 1, the increase in cash (\$10.8 million) and decrease in receivables (\$7.5 million) in 2021 over 2020 is primarily due to the fact that June 30<sup>th</sup> fell on a Wednesday. Revenue for video and traditional lottery is received weekly on Wednesdays. The two extra days of uncollected sales in fiscal year 2020 over 2019 made up the \$1.6 million increase in accounts receivable over fiscal year 2019.

The prize liability increased \$1.1 million in 2021 over 2020. The increase in sports betting has a direct correlation of the increase in prizes. Prize liability decreased in fiscal year 2020 over fiscal year 2019 by \$1.8 million due to the shutdown of sports lottery during the fourth quarter of FY2020 for COVID-19.

The Pension and OPEB liability and the amount due from the State of Delaware generally remained unchanged for fiscal years 2020 and 2019. The \$2.2 million increase for 2020 to 2021 was mostly in the OPEB fund. The impact of COVID-19 may result in significant changes to the health care cost trends, therefore an increase assumption changes was recorded. Since the Lottery is required to send all surplus funds to the State's 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, 2021 and 2020

**Revenue**

**Table 2**  
**Revenue**  
(In millions)

	Year ended June 30		
	2021	2020	2019
Play 3	\$ 36.6	29.0	27.5
Play 4	29.4	24.8	23.7
Multi Win Lotto	4.7	4.0	4.5
Powerball	19.3	14.7	25.2
Mega Millions	16.7	11.2	20.7
Lotto America	2.7	2.6	3.4
Keno	9.7	8.5	8.6
Lucky for Life	3.2	2.9	2.9
Instant games	111.5	92.9	79.8
Traditional games revenue	\$ 233.8	190.6	196.3
Video lottery, net	366.8	301.1	367.8
Casino license fees	0.2	0.2	0.2
Table games, net	43.8	40.8	56.6
Sports lottery	116.8	103.2	158.6
	\$ 527.6	445.3	583.2
I-Gaming	9.3	6.1	3.2
Total revenue	\$ 770.7	642.0	782.7

Table 2 above compares revenue for each lottery game category. Fiscal year 2021 shows gains in all lottery products this year over last fiscal year 2020. Overall sales in 2021 were up \$128.7 million or 20%. Traditional sales were up \$43.2 million or 22.7% compared to 2020. Higher jackpots were advertised for Powerball and Mega millions during last fiscal year. Instant sales continue an upward trend over the last 10 years. Sales in 2021 increased over 2020 by \$18.6 million (20%) Fiscal year 2020 showed a slight decrease in traditional lottery sales from fiscal year 2019, down \$5.7 million or 2.9%. Another record year for Instant games along with strong sales in the daily numbers (Play 3 & Play 4) held up against the decline in the jackpot games (Powerball & Mega Millions) due to a year with no high jackpots as found in fiscal year 2019.

Video lottery, Table games, and sports lottery all showed increases in fiscal year 2021, with the locations being open the full twelve months compared to fiscal year 2020. Sales were up \$82.3 million or 18%. These products had significant decreases in sales due to the closing of the sports books and casinos for most of the fourth quarter due to COVID-19. Sales were down \$137.9 million or 23.7% in 2020 over 2019.

I-gaming sales saw another record year for fiscal year 2021. The lottery upgraded their platform to allow for more game content. There was also the addition of mobile betting in fiscal year 2021. Sales were up \$3.2 million or 52%. With the closing of casinos, I-gaming sales saw a record year in fiscal year 2020. Players who normally would visit the casinos were able to play video lottery games and poker on the internet. I-gaming Sales increased \$2.9 million or 90.6% in fiscal year 2020 compared to fiscal year 2019.

**DELAWARE STATE LOTTERY**  
Management's Discussion and Analysis  
June 30, 2021 and 2020

**Cost of Games**

**Table 3**  
**Cost of Games**  
(In millions and as a percentage of all revenue)

	Year ended June 30					
	2021		2020		2019	
Commission expense	\$ 217.2	28.2%	\$ 183.3	28.5%	\$ 220.5	28.2%
Gaming vendor fees	53.7	7.0%	43.4	6.7%	47.4	6.1%
Prize expense	225.8	29.3%	189.2	29.4%	244.4	31.2%
Total cost of games	<u>\$ 496.7</u>		<u>\$ 415.9</u>		<u>\$ 512.3</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 2021 increases \$33.9 million or 18.5%. With overall sales increase from last fiscal year, the commission on those sales will also increase. Comparing fiscal year 2020 to fiscal year 2019, the commission expense decreased \$37.2 million or 16.9%. The decrease relates to not having these expenses during the shutdown for COVID-19.

Gaming vendor fees 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 vendor fees for video lottery terminals and franchise video games supplied to the video lottery agents, and the cost incurred by internet gaming for fees and website maintenance.

Gaming vendor fees increase in 2021 from 2020 by \$10.3 million or 23.7%. Vendors get paid on a percentage of sales so when sales increase so do vendor fees. Gaming vendor fees for fiscal year 2020 over fiscal year 2019 decreased by \$4 million or 8.4%. This decrease was also related to no costs incurred during the casino shutdown due to COVID-19.



**DELAWARE STATE LOTTERY**  
Management's Discussion and Analysis  
June 30, 2021 and 2020

**Prize Expense, Net of Reversions**

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

	Year ended June 30		
	2021	2020	2019
Instant games	75.0	61.6	53.1
Keno	5.7	5.0	5.0
Lotto America	1.4	1.2	1.7
Lucky for Life	2.4	1.5	1.7
Mega Millions	8.1	5.3	10.5
Multi Win Lotto	2.7	2.5	2.6
Play 3	19.3	14.0	13.3
Play 4	14.3	12.0	11.8
Powerball	9.4	6.9	12.2
Sports lottery	87.5	79.2	132.5
Total prize expense	\$ 225.8	189.2	244.4

The above table 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.

In Table 4, the prize expense increases \$36.6 million or 19.3% in fiscal year 2021 over fiscal year 2020. The comparison of fiscal year 2020 to fiscal year 2019 displayed a decrease in prize expense of \$55.2 million or 22.6%. The majority of the changes in prize expense are related to the increase or decrease in sales by game. The biggest drop can be found in sports lottery. Zero prize expense was recorded during the shutdown of professional sports and the casino sportsbooks during COVID-19.

**DELAWARE STATE LOTTERY**  
Management's Discussion and Analysis  
June 30, 2021 and 2020

**Operating Expenses**

**Table 5**  
**Operating Expenses**  
(In millions)

	Year ended June 30		
	2021	2020	2019
Operating expenses	\$ 10.8	10.8	10.7

Operating expenses remained unchanged from fiscal year 2019 through fiscal year 2021.

**Nonoperating Expenses**

**Table 6**  
**Nonoperating Expenses**  
(In millions)

	Year ended June 30		
	2021	2020	2019
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	41.1	34.1	40.2
Department of Health & Social Services	1.2	1.5	1.7
State of Delaware - General Fund	216.9	175.7	213.8
Total nonoperating expenses	\$ 263.2	215.3	259.7

Table 6 shows the expenses incurred to other state agencies as dictated by Delaware Law. The increase in operating expenses in 2021 over 2020 was \$47.9 million or 22.2%. Operating for a full 12 months in fiscal year 2021 at the casinos, this increase is comparing only nine months in fiscal year 2020. The decrease in nonoperating expenses from 2019 to 2020 was \$44.4 million or 17%. The decrease is mostly from not collecting revenue in the fourth quarter from table games, video and sports due to the casino shutdown for COVID-19.

**DELAWARE STATE LOTTERY**  
**Statements of Net Position**  
June 30, 2021 and 2020

<b>Assets and Deferred Outflows</b>	<b>2021</b>	<b>2020</b>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 12,987,681	\$ 2,171,692
Accounts receivable	6,455,637	13,981,606
Due from the State of Delaware	12,972,496	13,269,850
<b>Total current assets</b>	<u>32,415,814</u>	<u>29,423,148</u>
<b>Noncurrent assets:</b>		
Deposits with Multi-State Lottery Association	2,486,974	2,662,056
<b>Total assets</b>	<u>34,902,788</u>	<u>32,085,204</u>
<b>Deferred outflows of Resources</b>	<u>3,424,091</u>	<u>1,585,049</u>
<b>Liabilities, Deferred Inflows, and Net Position</b>		
<b>Current liabilities:</b>		
Prizes liability	7,838,897	6,693,950
Accounts payable and accrued liabilities	10,152,636	9,066,867
Due to the State of Delaware	451,785	-
<b>Total current liabilities</b>	<u>18,443,318</u>	<u>15,760,817</u>
<b>Noncurrent liabilities:</b>		
Multi-State Lottery reserve	2,486,974	2,662,056
Net Pension and OPEB liability	13,764,704	11,562,992
<b>Total noncurrent liabilities</b>	<u>16,251,678</u>	<u>14,225,048</u>
<b>Total liabilities</b>	<u>34,694,996</u>	<u>29,985,865</u>
<b>Deferred inflows of Resources</b>	<u>2,631,883</u>	<u>2,684,388</u>
<b>Net position:</b>		
Unrestricted	\$ <u>1,000,000</u>	\$ <u>1,000,000</u>

See accompanying notes to financial statements.

## DELAWARE STATE LOTTERY

### Statements of Revenue, Expenses, and Changes in Net Position Years ended June 30, 2021 and 2020

	<b>2021</b>	<b>2020</b>
<b>Revenue:</b>		
Video lottery, net	\$ 366,400,002	\$ 300,767,635
Video lottery expired jackpots and credit slips	392,554	363,417
Casino license fees	183,111	178,800
I-Gaming	9,261,017	6,073,212
Sports lottery	116,768,811	103,173,797
Table games, net	43,854,096	40,764,240
Draw games	122,266,364	97,812,653
Instant games	111,525,279	92,860,086
<b>Total revenue</b>	<b>770,651,234</b>	<b>641,993,840</b>
<b>Cost of games:</b>		
Video lottery commissions	160,413,162	132,022,000
Prize costs, net of reversions	225,770,488	189,235,110
Gaming vendor fees and costs	53,671,349	43,390,787
Instant and draw games commissions	15,101,126	12,944,732
Sports lottery commissions	6,611,066	5,674,958
Table games commissions	35,083,277	32,611,392
<b>Total cost of games</b>	<b>496,650,468</b>	<b>415,878,979</b>
<b>Gross margin</b>	<b>274,000,766</b>	<b>226,114,861</b>
<b>Operating expenses:</b>		
Advertising and promotions	3,111,789	3,228,194
Payroll and related benefits	5,752,891	5,734,709
Other general and administrative	1,896,567	1,813,515
<b>Total operating expenses</b>	<b>10,761,247</b>	<b>10,776,418</b>
<b>Operating income</b>	<b>263,239,519</b>	<b>215,338,443</b>
<b>Nonoperating expenses:</b>		
Delaware Standardbred Breeder's Program	3,000,000	3,000,000
Delaware Certified Thoroughbred Program	1,000,000	1,000,000
State of Delaware	259,239,519	211,338,443
<b>Total nonoperating expenses</b>	<b>263,239,519</b>	<b>215,338,443</b>
<b>Change in net position</b>	<b>-</b>	<b>-</b>
<b>Net position at beginning of year</b>	<b>1,000,000</b>	<b>1,000,000</b>
<b>Net position at end of year</b>	<b>\$ 1,000,000</b>	<b>\$ 1,000,000</b>

See accompanying notes to financial statements.

**DELAWARE STATE LOTTERY**  
 Statements of Cash Flows  
 Years ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<b>Cash flows from operating activities:</b>		
Receipts from customers	\$ 778,177,203	\$ 640,382,062
Payments to vendors for goods and services	(57,419,750)	(47,876,603)
Payments to employees for services	(5,392,041)	(5,627,876)
Payments for prizes	(224,625,541)	(191,086,464)
Payments for commissions	(217,433,503)	(181,665,846)
<b>Net cash provided by operating activities</b>	<u>273,306,368</u>	<u>214,125,273</u>
<b>Cash flows from noncapital financing activities:</b>		
Contributions to the Delaware Standardbred Breeder's Program	(3,000,000)	(3,000,000)
Contributions to the Delaware Certified Thoroughbred Program	(1,000,000)	(1,000,000)
Contributions to the State of Delaware	(258,490,379)	(212,702,134)
<b>Net cash used in noncapital financing activities</b>	<u>(262,490,379)</u>	<u>(216,702,134)</u>
<b>Net change cash and investments</b>	10,815,989	(2,576,861)
<b>Cash and investments at beginning of year</b>	<u>2,171,692</u>	<u>4,748,553</u>
<b>Cash and investments at end of year</b>	<u>\$ 12,987,681</u>	<u>\$ 2,171,692</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 263,239,519	\$ 215,338,443
Adjustments to reconcile operating income to net cash provided by operating activities:		
Effect of changes in operating assets, liabilities and deferred inflow and deferred outflows:		
Accounts receivable, net	7,525,969	(1,611,778)
Prizes liability	1,144,947	(1,851,354)
Net Pension and OPEB Liability	2,201,712	152,891
Accounts payable and accrued liabilities	1,085,768	2,194,865
Deferred Inflows and Deferred Outflows, net	(1,891,547)	(97,794)
<b>Net cash provided by operating activities</b>	<u>\$ 273,306,368</u>	<u>\$ 214,125,273</u>

See accompanying notes to financial statements.

**DELAWARE STATE LOTTERY**  
Notes to Financial Statements  
June 30, 2021 and 2020

**(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, location 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 Accounting**

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

**(d) Deferred Outflows and Inflows of Resources**

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

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

**(e) Cash and Cash Equivalents**

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

**DELAWARE STATE LOTTERY**  
Notes to Financial Statements  
June 30, 2021 and 2020

**(f) Accounts Receivables**

Accounts receivables consist primarily of unsettled balances due to the Lottery from the racetracks for video lottery and table games, and from retailers, which principally include grocery and convenience stores serving as the primary distribution channel for traditional lottery sales (drawing and instant games) to the general public. Accounts receivables are stated at the carrying amount net of allowance for uncollectible accounts. An allowance for uncollectible accounts receivable is established when specific customer collection issues are identified. Uncollectible accounts are written off when management has determined that the balance will not be collected. As of June 30, 2021, and 2020, no allowance was recorded.

	<b>2021</b>	<b>2020</b>
<b>Accounts Receivables:</b>		
Accounts	\$ 6,455,637	\$ 13,981,606
Total receivables	\$ 6,455,637	\$ 13,981,606
Amounts not scheduled for collection during the subsequent year	\$ —	—

**(g) Investments**

Investments consist of annuity contracts purchased from insurance companies to fund future prize payments and are carried at amortized cost as nonparticipating investment contracts. The practice of purchasing and holding annuity contracts to fund future prize obligations is no longer employed by the Lottery, as investment amounts reported represent annuity contracts whose most recent purchase was during 1998. It is the Lottery's policy to hold all investments of this nature that were purchased to fund prize obligations until maturity. All investments the Lottery had on hand have matured. As of June 30, 2021, and 2020, there were no investments.

**(h) Capital Assets**

All purchases of capital assets, mostly computer equipment and furniture and fixtures individually, in excess of \$25,000 are capitalized and carried at cost. Depreciation is computed by using the straight-line method over the estimated useful life of 10 years. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in operations in the period of disposal. During the fiscal years ending June 30, 2021, and June 30, 2020, the Lottery had no new purchases of capital assets.

**(i) Revenue Recognition**

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

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

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

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**(j) Prize Obligations**

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

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

**(k) Compensated Absences**

The Lottery has accrued a liability included in accounts payable and accrued liabilities for employee future absences, recognizing the obligation relating to services already rendered. This liability represents benefits accrued to Lottery employees for vacation earned as of year-end and sick leave estimated to be paid out at retirement for services rendered as of June 30, 2021. Employees earn from 9.5 to 13.25 hours of vacation leave per month depending on years of service. The employee or his or her estate is paid for unused vacation upon termination of employment. Employees earn 9.5 hours of sick leave per month. The Lottery's obligation for sick leave credit is a maximum of 337.5 hours. As of June 30, 2021, and 2020, the Lottery had liabilities of \$ 281,367 and \$246,681 for accrued vacation and \$246,718 and \$236,555 for accrued sick leave, respectively. Compensated absences balances as of year-end are considered short term liabilities and therefore a schedule identifying changes in the balance have not been presented.

**(l) Operating and Nonoperating Expenses**

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

**(m) Net Pension Liability**

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

**(n) Net OPEB Liability**

For purposes of measuring the net Other Postemployment Benefits (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expenses, information about the fiduciary net position of OPEB Trust and additions to/deductions from OPEB Trust's fiduciary net position have been determined on the same basis as they are reported by the OPEB Trust. For this purpose, benefit



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payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported a fair value.

**(o) Use of Estimates**

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

**(p) Net Position**

In the financial statement, the net position of the Lottery is \$1 million for the year ended June 30, 2021, and 2020, and it is not restricted for any purpose.

**(2) Cash and Cash Equivalents**

Cash and cash equivalents reported reflect three types of account balances: Lottery deposit account, 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 consist of cash equivalents, commercial paper, certificates of deposit, short-term (12 to 18 months) and long-term investments, which comprise corporate, municipal and U.S. government obligations, held and managed by the State Treasurer. State agencies, including the Lottery, participate in the State’s internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool.

Cash and investment balances consisted of the following:

	<b>June 30</b>	
	<b>2021</b>	<b>2020</b>
On hand and in bank	\$ 9,269,528	\$ 1,135,934
Pooled cash and investments	3,718,153	1,035,758
Total cash and investment balances	\$ 12,987,681	\$ 2,171,692

**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

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equity to total assets) of at least 5.0%. If the bank does not meet the aforementioned criteria, collateral must consist of one or more of the following:

- U.S. government securities
- U.S. government agency securities
- Federal Home Loan Board letters of credit
- State securities
- 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, 2021, and June 30, 2020, the total bank balance of cash in all bank accounts was \$9,338,007 and \$1,176,636 respectively.

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

**(3) Capital Assets**

During the years ending June 30, 2021, and June 30, 2020, the Lottery did not have any new purchases of capital assets. Currently, there are no capital assets or corresponding depreciation expense.

**(4) Prize Obligations**

The following is a reconciliation of changes in the prize's liability account, which includes the present value of prize installment obligations, for the fiscal years ended June 30, 2021 and 2020:

	<b>2021</b>	<b>2020</b>
Prize obligations, beginning of year	\$ 6,693,950	\$ 8,545,304
Prize payments	(224,625,541)	(191,086,464)
Prize costs, net of reversions	225,770,488	189,235,110
Prize obligations, end of year	\$ 7,838,897	\$ 6,693,950

**(5) Participation in the Multi-State Lottery Association**

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

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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, 2021 and 2020, equaled \$2,486,974 and \$2,662,056 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.

**(6) Delaware Standard Breeder’s Program and Delaware Certified Thoroughbred Program**

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

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

**(7) 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, 2021 and 2020, the Lottery made the following contributions to the State.

	June 30	
	2021	2020
Amounts transferred and to be transferred to the State for the fiscal year:		
General Fund	\$ 216,915,116	\$ 175,728,260
Department of Health and Social Services	1,157,873	1,543,079
Department of Agriculture	41,166,530	34,067,104
	\$ 259,239,519	\$ 211,338,443

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**(8) Revenue and Expenses by Game**

The following revenue was recognized:

	<b>Year ended June 30</b>	
	<b>2021</b>	<b>2020</b>
Draw games:		
Keno	\$ 9,693,911	\$ 8,545,356
Lotto America	2,711,357	2,626,776
Lucky for Life	3,214,748	2,893,822
Mega Millions	16,656,171	11,205,982
Multi Win Lotto	4,721,412	3,995,466
Play 3	36,554,537	29,017,035
Play 4	29,374,467	24,790,057
Powerball	19,339,761	14,738,159
Total draw games	<u>122,266,364</u>	<u>97,812,653</u>
Instant games	111,525,279	92,860,086
Total traditional lottery	<u>233,791,643</u>	<u>190,672,739</u>
Video lottery, net	366,400,002	300,767,635
Video lottery expired jackpots and credit slips	392,554	363,417
Table games, net	43,854,096	40,764,240
Casino license fees	183,111	178,800
Sports lottery	116,768,811	103,173,797
I-Gaming video lottery, net	9,261,017	6,073,212
Total revenue	<u>\$ 770,651,234</u>	<u>\$ 641,993,840</u>

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

	Video lottery net	I-Gaming video, net	Sports lottery	Table games, net	Draw games	Instant	Total
Year ended June 30, 2021:							
Revenue	\$ 366,400,002	9,261,017	116,768,811	43,854,096	122,266,364	111,525,279	770,075,569
Other income	392,554	—	—	183,111	—	—	575,665
Total Income	366,792,556	9,261,017	116,768,811	44,037,207	122,266,364	111,525,279	770,651,234
Prize costs, net of Reversions	—	—	87,507,488	—	63,297,121	74,965,879	225,770,488
Commissions expense	160,413,162	—	6,611,066	35,083,277	8,381,019	6,720,107	217,208,631
Total Costs	160,413,162	—	94,118,554	35,083,277	71,678,140	81,685,986	442,979,119
Contribution Margin per game	\$ 206,379,394	9,261,017	22,650,257	8,953,930	50,588,224	29,839,293	327,672,115
Game vendor fees	29,109,666	4,948,305	5,430,083	—	6,567,957	7,615,338	53,671,349
Gross Margin	177,269,728	4,312,712	17,220,174	8,953,930	44,020,267	22,223,955	274,000,766
Year ended June 30, 2020:							
Revenue	\$ 300,767,635	6,073,212	103,173,797	40,764,240	97,812,653	92,860,086	641,451,623
Other income	363,417	—	—	178,800	—	—	542,217
Total Income	301,131,052	6,073,212	103,173,797	40,943,040	97,812,653	92,860,086	641,993,840
Prize costs, net of Reversions	—	—	79,209,508	—	48,407,838	61,617,764	189,235,110
Commissions expense	132,022,000	—	5,674,958	32,611,392	7,387,157	5,557,574	183,253,081
Total Costs	132,022,000	—	84,884,466	32,611,392	55,794,995	67,175,338	372,488,191
Contribution Margin per game	\$ 169,109,052	6,073,212	18,289,331	8,331,648	42,017,658	25,684,748	269,505,649
Game vendor fees	23,943,492	3,500,889	4,289,766	—	5,471,997	6,184,643	43,390,787
Gross Margin	145,165,560	2,572,323	13,999,565	8,331,648	36,545,661	19,500,105	226,114,861

**(9) 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 2021 and fiscal year 2020, the Lottery incurred \$5,752,891 and \$5,734,709 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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**(10) Pension and Other Postemployment Benefits**

	<u>Liability</u>	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
Pension	1,672,518	656,577	394,778
OPEB	<u>12,092,186</u>	<u>2,757,514</u>	<u>2,237,105</u>
	<u>13,764,704</u>	<u>3,414,091</u>	<u>2,631,883</u>

**(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.

*Employer Contributions*

Employer contributions are determined by the Board of Pension Trustees. For the years ending June 30, 2021 and 2020, the rate of the employer contribution was 11.96% and 11.83% percent of covered payroll respectively. The Lottery's employer contributions for the years ended June 30, 2021 and 2020 was \$311,810 and \$306,769 respectively.

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*Net Pension Liability and Expense*

On June 30, 2021 and 2020, the Lottery reported a net pension liability of \$1,672,518 and \$1,932,872, respectively, for its proportionate share of the net pension liability of the State Employees Pension Plan. The net pension liability on June 30, 2021, was measured as of June 30, 2020, 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, 2019 to June 30, 2020. The net pension liability on June 30, 2020, was measured as of June 30, 2019, 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, 2018 to June 30, 2019. As of the measurement date, June 30, 2020, the lottery's proportion was 0.1191 percent, a decrease of 0.0050 percent from June 30, 2019. As of the measurement date, June 30, 2019, the lottery's proportion was 0.1241 percent, an increase of 0.0013 percent from June 30, 2018. For the years ended June 30, 2021, and 2020, the Lottery recognized a pension expense of \$412,637 and \$534,961.

*Deferred Outflows and Inflows of Resources*

On June 30, 2021, and 2020, the Lottery reported deferred outflows of resources of \$311,810 and \$306,769, respectively, for its contributions after the measurement date, which will be recognized as a reduction of the net pension liability in the following year.

On June 30, 2021, and 2020, the Lottery reported deferred outflows of resources related to pensions from the following sources:

	<u>2021</u>	<u>2020</u>
Net difference between projected and actual investment earnings	\$ -	\$ 21,938
Difference between actual and expected experience	218,037	162,572
Changes in assumptions	117,163	200,648
Change in proportion	9,567	11,959
Contributions subsequent to the date of measurement	311,810	306,769
	<u>\$ 656,577</u>	<u>\$ 703,886</u>

On June 30, 2021, and 2020, the Lottery reported deferred inflows of resources related to pensions from the following sources:

	<u>2021</u>	<u>2020</u>
Net difference between projected and actual investment earnings	\$ 290,623	\$ -
Difference between actual and expected experience	5,025	14,187
Changes in proportions	99,130	73,442
	<u>\$ 394,778</u>	<u>\$ 87,629</u>

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Amounts reported as deferred inflows and outflows of resources on June 30, 2021, related to pensions will be recognized as part of pension expense in future periods as follows:

Year Ending <u>30-Jun</u>	
2022	(43,730)
2023	14,039
2024	31,570
2025	(83)
2026	<u>(51,807)</u>
	<u>\$ (50,011)</u>

*Actuarial Assumptions*

The collective total pension liability for the June 30, 2020 measurement date was determined by an actuarial valuation as of June 30, 2019, with update procedures used to roll forward the total pension liability to June 30, 2020. This actuarial valuation used the following actuarial assumptions:

*Investment Return* includes inflation at 2.5%  
*Salary Increases* – 2.5% + Merit, includes inflation at 2.5%

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

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

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

The long-term expected rate of return on plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by an asset allocation percentage, which is based on the nature and mix of current and expected plan investments, and by adding 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%	28.5%
International equity	5.7%	15.2%
Fixed income	2.0%	28.8%
Alternative investments	7.8%	23.0%
Cash and equivalents	-	4.5%

*Discount Rate*

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

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

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

	1% Decrease <u>6.00%</u>	Discount Rate <u>7.00%</u>	1% Increase <u>8.00%</u>
2021 Lottery's proportionate share of net pension liability	\$ <u>3,214,585</u>	\$ <u>1,672,518</u>	\$ <u>376,728</u>
2020 Lottery's proportionate share of net pension liability	\$ <u>3,350,502</u>	\$ <u>1,932,872</u>	\$ <u>598,906</u>

*Pension Plan Fiduciary Net Position*

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

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**(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 through the Delaware Postretirement Health Plan (the Plan). 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. The plan 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 Plan 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.

*Allocation Methodology*

The OPEB amounts are determined in accordance with the Governmental Accounting Standards Board Statement No. 75 (GASB 75), *Accounting and Financial Reporting of Postemployment Benefits Other than Pensions*. The State has elected to allocate the employers proportionate shares of the OPEB amounts based on the percentages of actual employer contributions during the period of July 1, 2019 thru June 30, 2020.

*Net OPEB Liability and Expense*

On June 30, 2021 and 2020, the Lottery reported a net Other Postemployment Benefits (OPEB) liability of \$12,092,186 and \$9,630,120, respectively, for its proportionate share of the net OPEB liability of the State of Delaware.

As of the measurement date, June 30, 2020, the Lottery's proportion is based on the percentage of actual employer contributions during the period ending June 30, 2019. As of the measurement date, June 30, 2019, the Lottery's proportion is based on the percentage of actual employer contributions during the period ending June 30, 2018. The Lottery's 2020 and 2019 proportion was 0.1118 percent and 0.1161 percent, respectively. The 2020 portion showed a decrease of 0.0043 percent from its proportion measured as of June 30, 2019. The 2019 portion showed an increase of 0.0047 percent from its proportion measured as of June 30, 2018. For the year ended June 30, 2021 and 2020, the Lottery recognized an OPEB expense of \$514,530 and \$174,839, respectively.

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*Deferred Outflows and Inflows of Resources*

On June 30, 2021 and 2020, the Lottery reported deferred outflows of resources related to OPEB from the following sources:

	<u>2021</u>	<u>2020</u>
Expected and Actual Experience Differences	\$ 351,104	\$ -
Contributions subsequent to the date of measurement	298,471	320,928
Change in assumptions	2,044,823	468,840
Changes in proportions	73,116	91,395
	<u>\$ 2,767,514</u>	<u>\$ 881,163</u>

On June 30, 2021 and 2020, the Lottery reported deferred inflows of resources related to OPEB from the following sources:

	<u>2021</u>	<u>2020</u>
Net difference between projected and actual investment earnings	\$ 13,433	\$ 8,721
Expected and Actual Experience Difference	831,210	1,081,063
Changes in assumptions	687,730	1,031,726
Changes in proportions	704,732	475,249
	<u>\$ 2,237,105</u>	<u>\$ 2,596,759</u>

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

Year Ending <u>30-Jun</u>	
2022	\$ (362,639)
2023	(49,063)
2024	203,950
2025	369,471
2026	70,219
	<u>\$ 231,938</u>

*Actuarial Assumptions*

The total OPEB liability for the June 30, 2020 and June 30, 2019 measurement date was determined by an actuarial valuation as of June 30, 2019 and June 30, 2018, with update procedures used to roll forward the total OPEB liability to June 30, 2020 and June 30, 2019. These actuarial valuations used the following actuarial assumptions.

<u>Actuarial assumptions:</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Discount Rate	2.21%	3.50%
Projected Salary increases	3.25% + Merit	3.25% + Merit
Healthcare cost trends rates	5.60%	6.60%

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

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

*Discount Rate*

The discount rate used to measure the total OPEB liability was 3.50% at the beginning of the current measurement period and 2.21% at the end of the current measurement period, based on the Bond Buyer GO 20-Bond Municipal Bond Index. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and the employer contributions to the OPEB will continue to follow the pay-as-you-go contribution policy. Based on the assumptions of a pay-as-you-go plan, the discount rates used for June 30, 2020 measurement dates are equal to the applicable rate of the 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

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

	1% Decrease <u>1.21%</u>	Discount Rate <u>2.21%</u>	1% Increase <u>3.21%</u>
2021 Lottery's proportionate share of Collective Net OPEB liability	<u>\$ 14,495,110</u>	<u>\$ 12,092,186</u>	<u>\$ 10,214,744</u>
	1% Decrease <u>2.50%</u>	Discount Rate <u>3.50%</u>	1% Increase <u>4.50%</u>
2020 Lottery's proportionate share of Collective Net OPEB liability	<u>\$ 11,415,390</u>	<u>\$ 9,630,120</u>	<u>\$ 8,208,405</u>

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

	1% Decrease <u>4.60%</u>	Health Care Trend <u>5.60%</u>	1% Increase <u>6.60%</u>
2021 Lottery's proportionate share of Collective Net OPEB liability	<u>\$ 11,346,764</u>	<u>\$ 12,092,186</u>	<u>\$ 13,229,131</u>
	1% Decrease <u>5.60%</u>	Health Care Trend <u>6.60%</u>	1% Increase <u>7.60%</u>
2020 Lottery's proportionate share of Collective Net OPEB liability	<u>\$ 8,227,042</u>	<u>\$ 9,630,120</u>	<u>\$ 11,298,619</u>

**DELAWARE STATE LOTTERY**  
Notes to Financial Statements  
June 30, 2021 and 2020

**(11) 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.

**(12) 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 paying 5.371% of draw game sales, 4.18% of PHD (high-definition lottery ticket vending machine) sales, 9.95% of Keno sales, 5.6% of instant sales, 12.5% of track sports net revenue and 25% of retailer sports net revenue, 1% of video net gaming revenue, and 25% of net win for charitable gaming video machines to its central system provider through October 2022. For video lottery terminals, the lottery is committed to a range of 6.5% to 7.0% to video lottery vendors through October 28, 2021. For video lottery terminals classified as electronic table games (ETG), the Lottery is committed to a range of 7% to 20% through October 28, 2021.

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

**Proportionate Share of Net Pension Liability**

Measurement date	<u>6/30/2020</u>	<u>6/30/2019</u>	<u>6/30/2018</u>	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>6/30/2014</u>
Lottery's percentage of the net pension liability	0.1191%	0.1241%	0.1228%	0.1269%	0.1327%	0.1370%	0.1407%
Lottery's proportion of the net pension liability	\$ 1,672,518	\$ 1,932,872	\$ 1,585,580	\$ 1,860,152	\$ 1,999,680	\$ 911,588	\$ 518,009
Lottery's covered payroll	\$ 2,566,503	\$ 2,577,990	\$ 2,440,113	\$ 2,474,051	\$ 2,532,720	\$ 2,560,633	\$ 2,589,613
Lottery's proportionate share of the net pension liability as a percentage of its covered payroll	65.2%	75.0%	65.0%	75.2%	79.0%	35.6%	20.0%
Plan fiduciary net position as a percentage of the total pension liability	87.3%	85.4%	87.5%	85.4%	84.1%	92.7%	95.8%
<b><u>Contributions - Fiscal Year</u></b>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$ 311,810	\$ 306,769	\$ 304,759	\$ 253,999	\$ 236,800	\$ 242,448	\$ 244,307
Contributions in relation to the contractually required contributions	311,810	306,769	304,759	253,999	236,800	242,448	244,307
Contribution excess (deficit)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Lottery's covered payroll	\$ 2,487,258	\$ 2,566,503	\$ 2,577,990	\$ 2,440,113	\$ 2,474,051	\$ 2,532,720	\$ 2,560,633
Contribution as a percentage of covered payroll	12.5%	12.0%	11.8%	10.4%	9.6%	9.6%	9.5%

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

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

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

**Proportionate Share of Net OPEB Liability**

Measurement date	<u>6/30/2020</u>	<u>6/30/2019</u>	<u>6/30/2018</u>	<u>6/30/2017</u>	<u>6/30/2016</u>
Lottery's percentage of the net OPEB liability	0.1118%	0.1161%	0.1208%	0.1197%	0.1286%
Lottery's proportion of the net OPEB liability	\$ 12,092,186	\$ 9,630,120	\$ 9,824,521	\$ 10,235,689	\$ 11,681,265
Lottery's covered payroll	\$ 2,566,503	\$ 2,577,990	\$ 2,440,113	\$ 2,474,051	\$ 2,532,720
Lottery's proportionate share of the net OPEB liability as percentage of its covered payroll	471.2%	373.6%	402.6%	413.7%	461.2%
Plan fiduciary net position as a percentage of the total OPEB liability	4.3%	4.9%	4.4%	4.1%	3.3%

**Contributions - Fiscal Year**

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually required contributions	\$ 298,471	\$ 320,928	\$ 303,694	\$ 268,793	\$ 294,117
Contributions in relation to the contractually required contributions	\$ 298,471	\$ 320,928	\$ 303,694	\$ 268,793	\$ 294,117
Contribution excess (deficit)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Lottery's covered payroll	\$ 2,487,258	\$ 2,566,503	\$ 2,577,990	\$ 2,440,113	\$ 2,474,051
Contribution as a percentage of covered payroll	12.0%	12.5%	11.8%	11.0%	11.9%

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.