



Rhode Island Department of Revenue
Lottery Division

Rhode Island Lottery

**An Enterprise Fund of the State of Rhode Island and
Providence Plantations**



Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2019

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2019

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Introductory Section



Rhode Island Department of Revenue

Lottery Division

December 19, 2019

The Honorable Gina M. Raimondo, Governor
Mark A. Furcolo, Director of Revenue

We are pleased to present to you the **COMPREHENSIVE ANNUAL FINANCIAL REPORT** of the Rhode Island Lottery (the Lottery), an enterprise fund of the State of Rhode Island and Providence Plantations for the fiscal year ended June 30, 2019. This report has been prepared by the Finance Department of the Lottery. The Lottery is responsible for the accuracy of the financial data and the completeness and fairness of the presentation, including all disclosures.

The Lottery is a division of the Department of Revenue of the State of Rhode Island, and its financial statements are included in the State's Comprehensive Annual Financial Report. This report presents Lottery activity in a single enterprise fund. Only the activity of the Lottery, and no other data or information related to any other State agency or fund, is included in this report.

Generally Accepted Accounting Principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The Lottery's MD&A can be found immediately following the report of the independent auditors.

The Lottery was created by Constitutional Amendment passed on November 6, 1973. The legislation to create the Lottery was passed in March of 1974, and the Lottery began in May of 1974. The Lottery is operated like a business within the framework of State laws and regulations. Like any business, the Lottery's goal is to maximize income. As a State agency, however, the challenge lies in accomplishing this while maintaining the trust and best interest of the citizens of Rhode Island. It is our goal to achieve both.

History of the Lottery Industry

State run lotteries have long represented to governments an attractive alternative to other taxation methods, since their profits were returned to the public through community works, cultural activities, or financing of various projects. Two examples are the Vatican Museums and the Rialto Bridge in Venice.

To fully understand the history of lotteries in America, one must recognize the fact that the American colonies, at the time of their founding, lacked the capital, both in the public and private sector, needed to start the process of economic and cultural development.

As the English settled in America, the model of development that stressed private rather than public investment motivated them. Royalty in England were simply unwilling to spend their own money or tax their subjects to subsidize the development of the colonies, and lotteries became an important method of raising capital for both the public and private initiatives. In fact, the “Great Standing Lottery” held in London in 1612, was staged to help bail the Virginian Company, the corporation in charge of the settlement of Virginia, out of debt. A notable outcome for the first drawing of this lottery was that Anglican churches held two of the three winning tickets.

Perhaps one of the most poignant lottery stories is that of the abortive attempts to bail Thomas Jefferson out of an \$80,000 debt by holding a lottery on his behalf on the 50th anniversary of the adoption of the Declaration of Independence, an anniversary that coincided with the precise day of his death.

In the 1700s, many other founding fathers also supported American lotteries and used them for projects such as the financing of cannons for the Revolutionary War (Benjamin Franklin), the rebuilding of historic Faneuil Hall in Boston (John Hancock) and the financing of construction on the Mountain Road, which opened westward expansion from Virginia (George Washington).

The period from 1740 to 1820 witnessed an explosion of public works construction, such as roads, bridges, and canals, much of which was financed by lottery proceeds.

Many of America’s elite, private universities, Yale, Princeton, Harvard, University of Pennsylvania, and Columbia, have buildings funded through the proceeds of lotteries. The fact of the matter was that lacking the endowments built up over centuries by places like Oxford and Cambridge, American higher education had no choice but to resort to lotteries.

Many of the principal religious denominations of America (ironically, many of those which would, in the middle part of the 19th Century, lead the fight against lotteries) actually depended heavily on lotteries to get their start.

While very few people in America would have denied there was a need to raise money to build colleges, bridges, roads, or churches, then as now, America differed over whether lotteries were the appropriate way to raise those funds. The arguments for and against lotteries have not changed significantly over the course of the 200 years, from the 17th Century Puritan and Quaker denunciations of all games of chance, to those similarly voiced by fundamentalist Protestant religious groups in the 19th and 20th Centuries.

The concern about gambling, however, was often overwhelmed by the recognition that the lottery was a means that enabled the accomplishment of useful public projects. William Ames, a Cambridge teacher of many of the leaders of the Massachusetts Bay colony, denounced the playing of the lottery solely for the purpose of gain, but defended lotteries as long as they were intended for some pious end. The settlers of New England would find many virtuous purposes toward which to direct lottery proceeds. During the colonial period, the New England colonies authorized more lotteries than any other region of the country, which benefited colleges, churches, and every other manner of public works construction one could think of.

By the time of the Revolution, most every American colony joined the New England colonies in using lotteries as a primary method for financing both public works and private economic development. This reliance on lotteries was the result of the coming together of two powerful forces, a desperate need for capital to fight the war against Great Britain and the reluctance to impose taxes. It is during this time in history that some of America's most respected statesmen publicly campaigned for lotteries as a means of raising revenues. The two most well-known for this were Thomas Jefferson and Alexander Hamilton.

Thomas Jefferson described a lottery as a "salutary instrument . . . where men run small risks for the chance of obtaining a high prize." It was, he said, a "tax laid only on the willing," and was therefore more accepted than any other form of direct taxation. Alexander Hamilton described lotteries as a means by which an ordinary man could "hazard a trifling sum for the chance of considerable gain." Hamilton offered advice, which has been relevant to every lottery organizer since that time. He said there were two cardinal rules for a successful lottery: keep it simple, so that everyone understands the rules, and keep the tickets cheap, so that everyone could afford to participate.

The period of time from 1800 to the Civil War was the most active time for lotteries. There were an incredible number of lotteries in America during this period, some held for public purposes, some for a mixture of public and private purposes, and some for private purposes as entrepreneurs attempted to raise money for their own projects. It was at this time in history that charges of fraud and deception, which coincided with a resurgence of religious opposition to lotteries as being sinful, began.

By the 1820s, there was a vast array of lotteries being conducted, sometimes at the same time on the same day, and although the lottery ticket sellers became increasingly clever in their efforts (P.T. Barnum was a lottery agent), the market was overwhelmed. Because of that, there were many instances where the proceeds from the lottery were not sufficient to pay the prizes, a problem that often resulted in lottery organizers leaving town with the money in hand before the drawing could be held.

Charges of fraud and deception surrounded lotteries of the 19th Century, and the two most commonly believed reasons for these were dishonest lottery promoters and increasing religious opposition. There were, however, many other factors, including the growth of the banking institution, which offered an alternative means for entrepreneurs to raise money; an economic boom in the 19th Century which created sources of excess capital that could be used for investment in public works; and lastly, the willingness of state governments to step in and raise taxes to finance worthwhile public projects.

The full history of the decline of the lottery in America lasted from the Civil War until the resumption of the lottery in 1964 when New Hampshire established a state-run lottery for the purpose of raising money for education. New York, which had been the State to pass the first constitutional prohibition of lotteries in the United States in the 1820s, followed New Hampshire's return into the lottery business in 1967. In 1971, the State of New Jersey started their lottery and introduced a computer-based weekly game, which offered inexpensive tickets (50 cents), convenience of sale, and a weekly prize of \$50,000. In its first year of operation, the New Jersey Lottery grossed \$142.5 million and set the trend for the lottery industry. New York and New Hampshire revamped their systems, and other states introduced lotteries utilizing New Jersey's operation as a model.

Lotteries, through the years, have become more diversified. The vast array of lottery games in existence today caters to a variety of consumer tastes. These changes are largely attributable to the work of marketing experts. With greater selections, come increased sales. Considerable changes and new possibilities were introduced in lotteries through major technological innovations such as centralized on-line computer systems (1971) and magnetic strip tickets (1992).

By developing and tailoring products to the needs of clientele, the lottery has established itself as an everyday element in today's society.

History of the Rhode Island Lottery

In 1744, Rhode Island's first lottery raised money for a bridge at Weybosset Street in Providence. Tickets cost about \$12 each and raised approximately \$6,500 for the bridge. Several other lotteries were conducted throughout the 1700s including a lottery used to partially finance the building of a brick Colony House, which became Rhode Island's first State House following the Declaration of Independence. One of the most successful lotteries in Rhode Island was the one authorized to build Thames Street in Newport. It paid over \$1 million in prizes and was so popular that the people of Newport were able to build, pave and extend streets throughout the city.

On November 6, 1973, more than a three to one margin passed a Constitutional Amendment to create a lottery in Rhode Island. The amendment mandated that the General Assembly prescribe and regulate all future lotteries in Rhode Island. Legislation was passed to start the Lottery in March 1974, and it began two months later in May. The original purpose of the Rhode Island Lottery was to make up for the revenue lost from allowing the value of a trade-in automobile toward the sales tax liability on a new automobile.

The Lottery's first drawing was held at the State House on May 30, 1974. This weekly 50-cent game had a top prize of \$50,000. Rhode Island was the first state to televise a live lottery drawing in January of 1975, at no expense to the Lottery, which is still the case today. That same year Rhode Island became the first state to have a weekly lottery television program. The Numbers Game began on February 13, 1976 and continues today.

The first instant ticket game, Play Ball, was introduced on May 11, 1976. Since that time an additional 988 instant ticket games have been introduced.

On-line games started in February of 1978, and Lottery sales doubled with this new addition. The 4/40 Game began in the spring of 1981, with variations to that game being made throughout the years.

The Multi-State Lottery Association (MUSL) was formed in 1988 for the purpose of affording small states the opportunity to offer games with a higher jackpot than their population alone would generate. Along with Rhode Island, the initial members were the District of Columbia, Iowa, Oregon, Kansas and West Virginia. The first such game was called Lotto-America, which was replaced with PowerBall® on April 22, 1992. In February of 1998, Rhode Island replaced the Multi-State Daily Millions Game with the introduction of its own lotto game called Roll Down. This lotto game was succeeded by Easy Win in March 2000, Money Roll in November 2000 and the current game of Wild Money in January 2002. The Rhode Island Lottery began offering Mega Millions® on January 30, 2010 through its participation in the Multi-State Lottery Association.

Keno was introduced in the State on September 13, 1992, becoming the second U.S. Lottery (Oregon was first) to do so. Around this same time, Video Lottery Terminals (VLTs) went on-line at the State's two pari-mutuel facilities.

On July 1, 2005, due to the separation of powers law previously passed, the Rhode Island Lottery Commission was disbanded, and the Division of Lotteries of the Rhode Island Department of Administration was formed. On July 1, 2006, the Division of Lotteries became the State Lottery Division of the State of Rhode Island Department of Revenue.

On March 11, 2012, the Lucky for Life® game began in Rhode Island and the other New England states. The game offers players a chance to win a top prize of \$1,000 a day for life. In September 2013, a second tier prize was added for a chance to win \$25,000 a year for life.

In June 2013, casino table gaming opened at Twin River Casino in Lincoln, Rhode Island (Twin River), having passed statewide and local referenda in November 2012. The casino began offering nine different table games including black jack, craps, roulette, Pai Gow poker, Spanish 21, three card poker, mini baccarat, and let it ride. In December 2015, the casino added poker to the mix of table games offered. In 2016, having passed statewide and local referenda, a facility owned by Twin River – Tiverton, LLC. (Tiverton Casino Hotel), was authorized to offer state-operated casino table games located in the Town of Tiverton, Rhode Island and was in full operation in September 2018.

On August 28, 2018, Newport Grand, one of the State of Rhode Island's two licensed pari-mutuel facilities, closed operations, and the license was transferred to the Tiverton Casino Hotel. On August 29, 2018, Tiverton Casino Hotel commenced operations with a soft opening, limited public hours the next day, and followed the next day by a ribbon cutting ceremony and additional limited public hours. On September 1, 2018, Tiverton Casino Hotel opened full time offering the public state-operated video lottery terminals and state operated table games.

In May 2018, the United States Supreme Court overturned the Professional and Amateur Sports Protection Act (PASPA) allowing states to legalize sports betting. In June 2018, the State of Rhode Island passed legislation authorizing the State Lottery to implement, operate, conduct and control sports wagering at each of the State's two licensed facilities. In November 2018, sports betting was operational at Twin River and in December 2018 at Tiverton Casino Hotel. With the commencement of state-operated and regulated sports wagering at the two facilities, patrons wager on sporting events, combinations of sporting events, and certain other sport or athletic events as authorized by the Division.

In September 2018, stadium gaming was operational at Twin River and operational as of October 2018 at Tiverton Casino Hotel. Stadium hybrid gaming tables are connected to a series of electronic wagering terminals in a stadium-seating configuration. Live dealing of table games include blackjack, roulette, and mini-baccarat. The electronic wagering terminals are the devices patrons use to buy-in, cash out, and place wagers on the game outcome.

History of Lottery Games

Lotto Games

The Germans were the first to bring the modern lotto game to the market. Norwest Lotto in northwestern Germany launched the first game on October 9, 1955. Players simply marked 6 figures out of a total of 49 on their coupon. The idea quickly took off, and many other countries soon followed the Germans' lead.

With the “quick pick” feature, players can have the computer generate their numbers at random. Most lotteries offer this option.

Alexandre Fichet (1799-1862), who designed a system to replace manual draws using balls, developed technology for lotto drawings in France. He invented a way to carry out lottery drawings using wheels with numbers from 1 to 9 around the rim. At the end of the wheel’s rotation, the winning number was clearly shown through a window.

In 1985, the launch of Tri-State Lotto, the first multi-state lottery, linked Maine, New Hampshire and Vermont state lotteries.

Instant Tickets

The first instant lottery ticket was marketed in 1974 in the Commonwealth of Massachusetts, which became the first state lottery to develop and sell an instant game. Today, all state lotteries offer instant tickets, and this type of lottery game is recognized as one of the most popular lottery offerings in North America.

Video Lottery

Although the invention of the “slot” machine dates back to 1890, it was only in 1976 that the first black and white video technology was developed. Color video terminals were launched on the market several months later.

Initially, video lottery machines were only associated with casinos; however, in 1985, the State of Nebraska changed its legislation and allowed the Nebraska Lottery to test a video lottery that was not linked to a central system. The experiment was terminated that same year.

Several years later, when the South Dakota Lottery was searching for new sources of revenue, it took up the idea of video lottery. In March of 1989, legislation allowing the establishment of the first server-connected video lottery was approved. In the fall of 1990, South Dakota offered the first operational video lottery in all of the United States. On June 30, 1992, the Rhode Island Division of State Lottery received authorization to conduct video lottery games at pari-mutuel facilities in operation on that date. By the end of calendar year 1992, Oregon, Rhode Island, and Louisiana had video lottery terminals up and running in their respective states.

Table Games

The precise origin of casino gambling is unknown, but it is generally believed that gambling in some form or another has existed in most societies in history. The first known European gambling house was established in Italy in 1638. In American history, early gambling establishments were called saloons and were popular in cities such as New Orleans, Chicago, San Francisco, and St. Louis. Casino gambling as we know it today was legalized in Nevada in 1931, and America's first legal casinos were set up there. In 1978, New Jersey allowed casino gaming, and Atlantic City became America's second largest gambling city.

Casino gambling began in New England in 1986. In June of 2013, casino table gaming opened at Twin River, having passed statewide and local referenda in November 2012. The casino began offering traditional card and dice games to video lottery terminals already at the facility. In December 2015, poker was added to the mix of table games offered. In September of 2018, casino table gaming opened at Tiverton Casino Hotel, having passed statewide and local referenda in 2016. Additionally, stadium hybrid gaming tables became operational in September 2018 at Twin River and in October 2018 at Tiverton Casino Hotel.

Sports Betting

Sports Betting in the United States was illegal under the Professional and Amateur Sports Protection Act of 1992 (PASPA) except for the states of Delaware, Montana, Nevada and Oregon which were operating sports betting and grandfathered in and exempted from PASPA. In 2012, New Jersey legalized sports betting at race tracks and Atlantic City casinos regardless of PASPA. In May 2018, the United States Supreme Court overturned PASPA. Subsequent to the ruling, several states, including New Jersey and Rhode Island, began to legalize sports betting. In June 2018, the state of Rhode Island passed legislation authorizing the State Lottery to implement, operate, conduct and control sports wagering at the State's two licensed facilities. Sports Betting commenced in November 2018 at Twin River and in December 2018 at Tiverton Casino Hotel. Many additional states are in the process of legalizing and implementing sports betting within their states.

Keno

Keno originated in China more than 2,000 years ago. Legend has it that this game financed the Great Wall of China. The original Chinese game was played with characters from the "Thousand Character Classic", an ancient poem of luck by Confucius. Keno subsequently spread far beyond the borders of China and was well established in both Europe and the United States by the turn of the 20th Century. Today, Keno is a very popular lottery offering because of its flexibility in the number of spots that can be played, which in effect means there are actually several games going on at the same time all with different odds of winning a prize. Daily Keno drawings have proven more successful than those held two or three times a week. Rhode Island is one of only a handful of lotteries offering a new Keno draw every 4 minutes.

Rhode Island Lottery Product Offerings

The Rhode Island Lottery provides the opportunity to participate in the following games:

Instant Games

Instant (or scratch) tickets are played by scratching the covering on the play area of a ticket. In order to win, the player must match or beat numbers or match symbols. Instant ticket offerings in Rhode Island include card games, sports, money, whimsical and holiday themes. Also offered are extended play games including Crossword, Super Crossword, Loteria, and Bingo. Some games may offer second chance drawings for additional cash and merchandise prizes including Patriots™ prize packs and season tickets, and also trips.

THE NUMBERS.

The Daily Numbers game has been very popular in Rhode Island since its inception in 1976. Players can wager on 2, 3, or 4 digits. Wagers on 3 and 4 digits can be played in exact or any order. Players can select their own numbers or utilize the computer "quick pick." The Daily Numbers drawing is televised live Monday through Saturday at 7:00 p.m. and at 6:30 p.m. on Sunday. Weekly and 30-day purchase options are available to players.

The Lottery added an Instant Match feature to the Daily Numbers game in September 2002. Instant Match offers the player the chance to win up to \$500 instantly on a Daily Numbers ticket, for an additional \$1 per wager.

In May 2014, the midday drawing was added offering additional wagers to the evening drawing. The midday drawing is held daily at 1:30 p.m., and players may view it on YouTube™ or on the Lottery's website.



Keno was introduced in September of 1992 and quickly proved to be a very popular game. Rhode Island Keno has a 10 of 20 of 80 matrix, with a \$100,000 top prize. Players can wager on 1 to 10 numbers (spots) utilizing their own number selection or a computer "quick pick." In January of 2000, Keno drawings increased from every 5 minutes to every 4 minutes. These Keno drawings occur from 5:00 a.m. to 12:45 a.m., Monday through Saturday and 7:00 a.m. to 12:45 a.m. on Sunday. In April of 2001, Keno Plus was introduced. Players have the option to purchase this feature that could increase their winnings by ten times, thus giving Keno players the potential to win up to \$1,000,000. Keno Overtime started in July 2017, and the Overtime round begins after each Keno draw and offers players an extra chance of winning higher prizes up to \$500,000.



Bingo is a monitor game that was introduced to the Rhode Island Lottery on October 14, 2012. The game is played on a traditional bingo style board, where players must make one of eight patterns to win a prize. For each drawing, 30 numbered balls are drawn. Players can wager \$1, \$2, \$5, or \$10 per board, with a top prize of \$100,000.



PowerBall® is a Multi-State Lottery Association game offered in forty-four states (including Rhode Island), plus the District of Columbia, Puerto Rico, and U.S. Virgin Islands. For \$2, players select "5 out of 69" numbers and a PowerBall® "1 out of 26." Players can select their own numbers or utilize a computer "quick pick." Jackpots start at \$40 million and grow by a minimum of \$10 million for each drawing not producing a jackpot winner. Televised drawings are shown on Wednesday and Saturday at 10:59 p.m. For an additional \$1, players can choose the PowerPlay® option to increase their non-jackpot prizes. The PowerPlay® feature is now a random multiplier whereby players are able to win up to 10X the value of set prizes on lower prizes below Match 5. The 10X multiplier is available for advertised annuity jackpots up to \$150 million. The \$1 million prize for matching 5/5 white balls increases to a maximum of \$2 million when you purchase the PowerPlay®. The multiplier does not apply to the grand prize jackpot.



The Rhode Island Lottery began offering Mega Millions® on January 30, 2010 through its participation in the Multi-State Lottery Association. As of October 2017, each board costs \$2 without the Megaplier® option or \$3 with the Megaplier® option. Game enhancements include bigger average jackpots with faster rolls, and improved odds for winning the second prize level of \$1 million. Players select "5 out of 70" numbers and a Mega Ball "1 out of 25." Players can select their own numbers or utilize a computer "quick pick." Jackpots start at \$40 million and grow by a minimum of \$5 million for each drawing not producing a jackpot winner. Drawings are held on Tuesday and Friday at 11:00 p.m. Megaplier®, which is a multiplier option for Mega Millions® winnings, allows players who choose this option on their Mega Millions® ticket to have the chance to increase their winnings by up to 5 times including the \$1 million prize for matching 5/5 white balls. The multiplier does not apply to the jackpot win.



Wild Money is an on-line game with a starting jackpot of \$20,000 that continues to grow until a player matches 5 numbers selected out of a field of 35. Its first jackpot of \$315,869 was won on April 13, 2002 and the highest was \$601,207 on March 25, 2006. Drawings are held Tuesday, Thursday, and Saturday at 7:30 p.m.



The Lucky for Life[®] game is offered in twenty-six lotteries, including Rhode Island. Players select "5 out of 48" numbers and a Lucky ball "1 out of 18" and have a chance to win \$1,000 a day for life. There is also a second chance prize to win \$25,000 a year for life. Each play board costs \$2. Drawings are held Monday and Thursday at 10:38 p.m. in Connecticut and can be viewed at www.neluckyforlife.com.

Video Lottery

Video Lottery debuted in Rhode Island in September of 1992. There are a total of 5,107 video lottery terminals (VLTs) located in the State's two pari-mutuel facilities, Twin River and Tiverton Casino Hotel. In August 2018, the State's pari-mutuel license with Newport Grand was transferred to Tiverton Casino Hotel. As of June 30, 2019, Twin River has 4,107 VLTs and Tiverton Casino Hotel has 1,000 VLTs. Various virtual and multi-layer display games are offered on the VLTs.

Table Games

Table gaming opened in Rhode Island in June 2013 at Twin River. There are currently 125 tables available at Twin River offering traditional card and dice games, including poker, which was added in December 2015. Tiverton Casino Hotel opened in August 2018 offering 32 traditional card and dice table games. Hybrid stadium gaming was operating at Twin River and Tiverton Casino Hotel in September 2018 and October 2018, respectively. There are currently 48 terminals at Twin River and 18 at Tiverton Casino Hotel. Hybrid stadium gaming consists of electronic wagering terminals in a stadium seating configuration allowing blackjack, roulette and mini-baccarat to be played concurrently with a live dealer.

Sports Betting

Sports wagering in Rhode Island commenced in November 2018 at Twin River, and in December 2018 at Tiverton Casino Hotel. Presently, patrons can wager in the Sportsbook or at wagering terminals throughout the casino floors at both venues. Wagers can be placed on professional and college teams for various sporting events. The types of wagers accepted are based on industry standards for each sporting event, such as; money line, points spreads, total points, teasers, round robins and futures. Also, in-game/in-play bets and propositions are also offered.

Pull Tabs

Rhode Island General Laws mandate that pull tab tickets be sold only by non-profit organizations. The Rhode Island Lottery oversees the sale of pull tab tickets to these groups.

Rhode Island Economic Outlook

Rhode Island's population has increased slightly over a twelve month period to 1.05 million as of July 1, 2019. As of June 2019, the unemployment rate was 3.6%; which was below the national rate of 3.7%.

Lottery Industry Economic Outlook

The United States Lottery Industry experienced an increase in fiscal year 2019. Based on unaudited figures from the North American Association of State & Provincial Lotteries (NASPL), sales increased from \$85.6 billion in fiscal year 2018 to \$91.3 billion in fiscal year 2019, a 6.69% increase.

Highlights of Fiscal Year 2019

- For fiscal year 2019, the Lottery transferred \$397.3 million to the State's General Fund.
- During the first half of fiscal year 2019, the Lottery oversaw, operated and regulated the implementation of operations at the new Tiverton Casino Hotel, the implementation and operation of stadium gaming at Twin River and Tiverton Casino Hotel, and the implementation and operation of sports betting at Twin River and Tiverton Casino Hotel.
- Total net table game revenue for fiscal year 2019 was \$163.4 million, an increase of \$17.6 million or 12.1% over fiscal year 2018. The increase was the result of the opening, in September 2018, of Tiverton Casino Hotel that generated net table game revenue of \$20.9 million. The number of tables available at Twin River increased to 125 offering traditional card and dice games including black jack, craps, roulette, and various card games including poker. The opening of Tiverton Casino Hotel added 32 traditional card and dice games. Additionally, Twin River and Tiverton Casino Hotel added 48 and 18 hybrid stadium table games, respectively. As of June 30, 2019, there are 125 traditional and 48 hybrid gaming tables at Twin River and 32 traditional and 18 hybrid gaming tables at Tiverton Casino Hotel.
- In fiscal year 2019 instant ticket sales increased \$4.2 million or 4.3% over the prior fiscal year 2018. This is a result of new instant ticket product offerings.
- In fiscal year 2019, video lottery net terminal income increased \$41.4 million over the prior fiscal year. The increase includes the successful opening, in September 2018, of the Tiverton Casino Hotel. The State pari-mutuel license held by Newport Grand was transferred to Tiverton Casino Hotel on August 28, 2018, and was fully operational on a twenty-four hour basis as of September 1, 2018.
- Sports Betting was operational in Rhode Island at the Twin River Casino Hotel on November 26, 2018, and at the Tiverton Casino Hotel on December 3, 2018. Total sports betting revenues (handle) before prizes, commissions and marketing expenses was \$127.6 million. Gross profit transferred to the State General Fund from sports betting, after deducting the State's 51% share of the sports book's commissions and marketing expenses was \$3.0 million.

GFOA Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Rhode Island Lottery for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2018. This was the twenty-second consecutive year that the Lottery has achieved this prestigious award (1997 through 2018). In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR. This report must comply with both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The Rhode Island Lottery received a certificate on its first submission, in May of 1998, and on each subsequent attempt. We believe that our current CAFR 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.

Accounting Systems and Procedures

The Rhode Island Lottery operates the Lottery fund, an enterprise fund that, like a private business, utilizes the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis of accounting, revenues are recognized when earned; and expenses are recognized at the time the related liabilities are incurred.

Budgetary Controls

The operating budget of the Rhode Island Lottery is submitted to the State Budget Office, through the Department of Revenue, for inclusion into the Governor's State Budget to the General Assembly. The State Budget is ultimately legally enacted by the General Assembly.

The Revenue Estimating Conferences continue to adopt revenue estimates for the Lottery, which are incorporated into the State Budget.

Internal Control Environment

Management of the Lottery is responsible for establishing and maintaining an internal control structure designed to ensure that assets are protected from loss, theft, or misuse and to ensure that the accounting system allows for recovery of complete, accurate and timely financial information. The structure is designed to provide reasonable assurance, rather than absolute assurance, that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the evaluation of costs and benefits requires estimates and judgments by management.

The Lottery operates and regulates video lottery activity, table gaming, and sports wagering at the State's two pari-mutuel facilities in Lincoln and Tiverton, controls the disbursements of prizes, and manages a valuable ticket inventory; the following steps are taken to ensure the integrity and security of operations:

- Employing an Information Technology Security Manager.
- Employing specialized security staff.
- Maintaining secure Lottery facilities and limiting access to them.
- Performing background checks on retailers, vendors, and employees.
- Printing lottery tickets with special security features.
- Independent Information Technology security audits of Lottery networks.
- Implementing additional Information Technology security control requirements over each video lottery facility's system to protect the integrity of the data within the systems and the financial data used by the Lottery.
- Providing a variety of access and other controls in Information Technology systems and environments.
- Implementing a Video Lottery System Monitoring Plan to ensure the integrity of video lottery games and to ensure that control procedures are operating as designed.
- Monitoring video lottery terminals on a daily basis and reconciling to a cash management system.
- Processing daily transaction data of all retailer activity by Lottery personnel using the Lottery's internal control system programs and reconciling transactions to reports generated by the on-line system.
- Implementation of comprehensive information security objectives for the Lottery's on-line and video lottery systems as provided by its central system provider.
- Monitoring regulated casino procedures and controls over net table game revenue.
- Assignment of table games compliance inspectors and investigators to assess potential violations of regulatory and compliance requirements and game play, and to determine grounds for turning over to law enforcement.
- Continuous monitoring of table games cash and chip management, required financial documents, and surveillance of games in play.
- Implementation of financial, operational, and compliance minimum internal control requirement standards for casino management.

The Lottery currently has 104 employees, 50 of whom are located at the headquarters in Cranston, Rhode Island. Separated from the headquarters, the drawing studio is located at the Twin River pari-mutuel facility. Additionally, 31 employees are located at the Twin River facility in Lincoln, Rhode Island and 23 employees are located at the Twin River Tiverton facility, each location operating and regulating table games to ensure compliance with Rhode Island statutory requirements and Lottery rules and regulations.

Future Projects

Online sports betting was launched in September 2019. Players are now able to open an account via the internet or on a smart phone and place wagers on sporting events, combinations of sporting events and certain other sporting events as authorized by the Lottery Division. Additional marketing and educational information will be available to patrons.

The Twin River and the Tiverton Casino Hotel video lottery terminal facilities continue to coordinate their regular promotions and promotional points programs. Both facilities also plan to continue providing entertainment to complement their marketing programs and generate additional revenue. Additionally, reimbursement for certain marketing expenses are paid to the facilities after specific statutory requirements are met, for those marketing expenses as authorized and allowed by the Lottery.

Digital Gaming is scheduled to launch in the Spring of 2020. Players will be able to open an account (e-wallet) on a mobile device or desktop, which will allow them to purchase Lottery products online. The Lottery is currently working with its Central System Provider on software requirements. The plan is to start with initial offerings of Keno and e-Instants with the eventual move to add all traditional Lottery products.

The Lottery's Wild Money game, currently drawn on Tuesday, Thursday, and Saturday evenings, will be going to a seven (7) day draw game in the Spring of 2020. Wild Money, which is drawn using a mechanical draw machine and televised live, will now be drawn via a random number generator with an animated draw being fed to the Lottery's website, YouTube channel, and the local television station that currently airs the live draws.

In addition to the Wild Money game change, discussions are underway with the Multi-State Lottery Group (MUSL) to revamp the PowerBall® game, with similar discussions taking place with the Lucky for Life® group to make changes to that game as well.

Independent Audit

The Rhode Island General Laws require an annual audit to be performed by the State Auditor General. The fiscal year 2019 audit of the financial statements has been completed in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. The Independent Auditor's Report on the Lottery's financial statements is included in the financial section of this report. In accordance with *Government Auditing Standards*, the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, was issued by the Auditor General.

Acknowledgements

Preparation of this report was accomplished with the significant efforts of Anissa Colson, Kevin San, and Sarah Medeiros.

This Comprehensive Annual Financial Report reflects our commitment to maintain the Rhode Island Lottery's financial statements and record keeping systems in compliance with the highest standards of accountability.

Respectfully submitted,



Gerald S. Aubin
Director



Daniel R. Sarro
Finance Administrator



Government Finance Officers Association

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

Presented to

Rhode Island Lottery

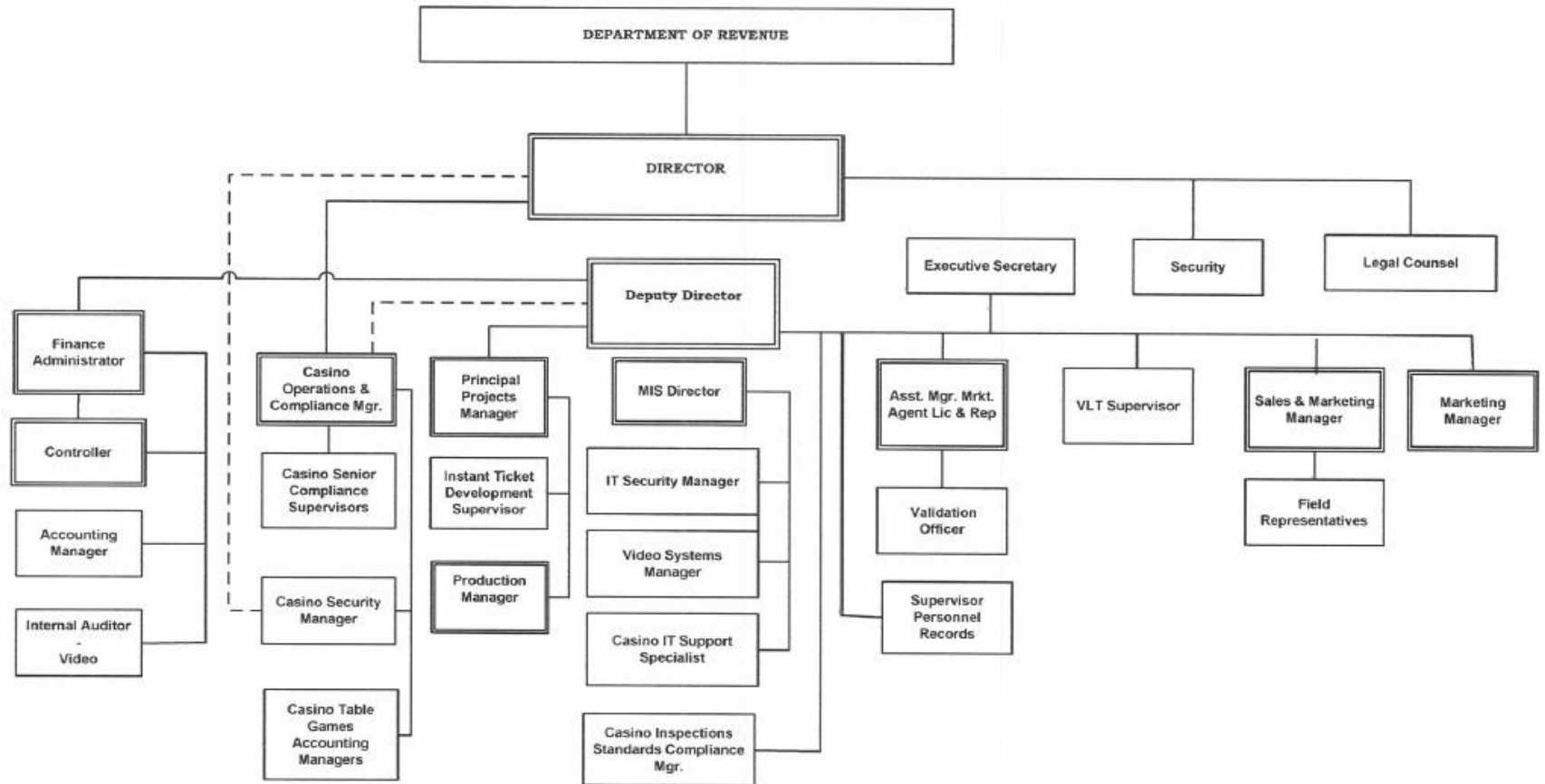
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2018

Christopher P. Morill

Executive Director/CEO

Rhode Island Lottery Organizational Chart June 30, 2019



PRINCIPAL OFFICIALS

**GERALD S. AUBIN
DIRECTOR**

**MARGARET D. ROSE
DEPUTY DIRECTOR**

**DANIEL R. SARRO
FINANCE ADMINISTRATOR**

**ANISSA E. COLSON
CHIEF FISCAL AFFAIRS & CONTROLLER**

**JOSEPH R. SANTURRI
DIRECTOR OF MANAGEMENT INFORMATION SYSTEMS**

**KEITH J. TUCKER
CASINO OPERATIONS AND COMPLIANCE MANAGER**

**DONALD J. CATALDI
SALES AND MARKETING MANAGER**

**MELISSA JUHNOWSKI
MARKETING MANAGER**

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Financial Section



Office of the Auditor General

State of Rhode Island and Providence Plantations - General Assembly
Dennis E. Hoyle, CPA - Auditor General

oag.ri.gov

tel: 401.222.2435 • fax: 401.222.2111

INDEPENDENT AUDITOR'S REPORT

Joint Committee on Legislative Services, General Assembly, State of Rhode Island:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

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.

Joint Committee on Legislative Services, General Assembly, State of Rhode Island

Opinion

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

Emphasis of Matters

As discussed in Note 2(b), 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 Rhode Island and Providence Plantations, as of June 30, 2019, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 13(b), the Lottery's ability to generate income for transfer to the State's General Fund could be adversely impacted by current or planned gaming activities of competitors in neighboring states.

Our opinion is not modified with respect to these matters.

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 21 through 32, Schedule of the Lottery's Proportionate Share of the Net Pension Liability – Employees' Retirement System Plan on page 66, the Schedule of the Lottery's Contributions – Employees' Retirement System Plan on page 67, the Schedule of the Lottery's Proportionate Share of the Net OPEB Liability – State Employees' OPEB Plan on page 68, and the Schedule of the Lottery's Contributions – State Employees' OPEB Plan on page 69 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 financial statements that collectively comprise the Lottery's basic financial statements. The supplementary information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

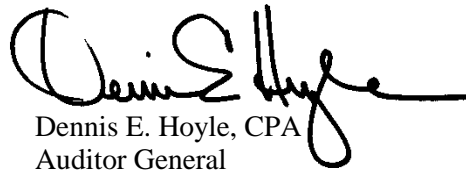
Joint Committee on Legislative Services, General Assembly, State of Rhode Island

Schedule 1 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, Schedule 1 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Introductory and Statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2019 on our consideration of the Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is 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 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.



Dennis E. Hoyle, CPA
Auditor General

October 2, 2019

RHODE ISLAND LOTTERY

Management's Discussion and Analysis

Management of the Lottery provides this *Management's Discussion and Analysis* of their financial performance for the readers of the Lottery's financial statements. This narrative provides an overview of the Lottery's financial activity for the fiscal year ended June 30, 2019. This analysis is to be considered in conjunction with the financial statements to provide an objective analysis of the Lottery's financial activities based on facts, decisions, and conditions currently facing management.

Understanding the Lottery's Financial Statements

The Lottery, a division of the Department of Revenue of the State of Rhode Island and Providence Plantations (State), is accounted for as an enterprise fund that reports all assets and liabilities using the accrual basis of accounting, much like a private business entity. In accordance with accounting principles generally accepted in the United States of America, this report consists of a series of financial statements, along with notes to the financial statements and a supplementary schedule detailing operating revenue and the cost of gaming operations for each lottery game. The financial statements immediately follow this *Management's Discussion and Analysis* and are designed to highlight the Lottery's net position and changes in net position resulting from Lottery operations.

The most important relationship demonstrated within the Lottery's financial statements is the requirement that the Lottery transfer net income to the State's General Fund. Accordingly, the primary focus of these financial statements is determining net income available for payment to the State's General Fund rather than the change in net position of the Lottery. It is also important to note that most financial statement balances have a direct relationship to revenue. Generally, as lottery revenues increase for a particular game, the related amount paid to the State's General Fund also increases. Similarly, increases in revenue for a particular lottery game result in direct increases to the related prize awards and commissions expense.

Most assets included on the Statement of Net Position represent current amounts such as cash and accounts receivable from Lottery retailers. Most current liabilities represent prize awards owed, vendor commission payments, and amounts due to the State's General Fund. Current assets approximate the amounts required to satisfy current liabilities at year-end.

The deficit in net position of \$20.1 million reported at June 30, 2019 relates to (a) the Lottery's previous sale of its exclusive rights to operate its gaming systems and (b) the Lottery's proportionate share of the net pension and OPEB liabilities. In fiscal 2003, the Lottery sold the exclusive right to operate its current gaming systems for a 20-year period at a cost of \$12.5 million and immediately paid the proceeds to the State's General Fund. According to the terms of the agreement, if for any reason, this contract is voided prior to its completed term; the Lottery will be required to refund a pro-rata share of the sales price to the gaming system provider. In accordance with generally accepted accounting principles, the Lottery recognizes the revenue related to this transaction over the 20 year life of the contract. The deficit in net position at June 30, 2019 includes the remaining balance of \$2.5 million representing unearned contract revenue. The remaining net position (deficit) of \$17.6 million represents the Lottery's recognition of its proportionate share of the net pension liability and net OPEB liability (inclusive of related deferred inflows and outflows) as of June 30, 2019, as a participating employer in the Employees' Retirement System Pension Plan (Pension Plan) and the State Employees' OPEB Plan (OPEB Plan). Further details of the Lottery's net pension liability and net OPEB liability can be found in the notes to the financial statements.

RHODE ISLAND LOTTERY

Management's Discussion and Analysis

Financial Highlights

- The Lottery transferred \$397.3 million to the State's General Fund in fiscal 2019. The transfer amount is \$32.3 million or 8.9% more than fiscal year 2018.
- Video lottery net revenue increased by \$41.4 million during fiscal 2019, largely as a result of the September 2018 opening of Tiverton Casino Hotel.
- Table games operations generated \$163.4 million in net revenue during fiscal 2019, an increase of \$17.6 million or 12.1% over fiscal 2018. This was the result of 32 traditional and 18 hybrid stadium electronic gaming tables associated with the September 2018 opening of the Tiverton Casino Hotel, and the implementation of additional traditional and hybrid stadium table games at the Twin River Casino Hotel.
- Instant ticket sales increased by \$4.2 million or 4.3% in fiscal year 2019, continuing similar growth in fiscal year 2018 when instant ticket sales increased \$4.5 million over the prior fiscal year.
- Sportsbook operations began in Rhode Island in November 2018 at Twin River Casino Hotel and in December 2018 at Tiverton Casino Hotel. Total sports betting revenues (handle) totaled \$127.6 million and generated a transfer to the State's General Fund of \$3.0 million.

RHODE ISLAND LOTTERY

Management's Discussion and Analysis

Analysis of Comparative Financial Position

The Lottery's net position (deficit) at June 30, 2019 and June 30, 2018 is summarized below:

	June 30, 2019	June 30, 2018
Assets:		
Current assets		
Cash and cash equivalents	\$ 27,664,723	\$ 19,912,813
Accounts receivable, net	10,650,307	8,291,337
Due from State's General Fund	-	1,480,656
Other	1,181,849	1,498,465
Total current assets	39,496,879	31,183,271
Long-term assets		
Capital assets, net	353,299	314,132
Total assets	39,850,178	31,497,403
Deferred outflows of resources - pension	3,452,985	3,299,746
Deferred outflows of resources - OPEB	678,777	549,250
Deferred outflows of resources	4,131,762	3,848,996
Liabilities:		
Current liabilities		
Due to State's General Fund - net income from operations	\$ 2,048,319	\$ -
Due to State's General Fund - operating expenses	39,381	113,118
Accounts payable	18,398,496	15,170,551
Prize obligations	11,639,227	9,166,936
Compensated absences	325,212	264,018
Other liabilities	7,578,886	7,037,500
Total current liabilities	40,029,521	31,752,123
Long-term liabilities		
Compensated absences	445,658	370,281
Net pension liability	17,142,457	16,869,023
Net OPEB liability	3,876,354	3,863,547
Unearned contract revenue	1,875,000	2,500,000
Total long-term liabilities	23,339,469	23,602,851
Total liabilities	63,368,990	55,354,974
Deferred inflows of resources - pension	458,812	686,526
Deferred inflows of resources - OPEB	267,284	248,788
Deferred inflows of resources	726,096	935,314
Net position (deficit):		
Net investment in capital assets	353,299	314,132
Unrestricted	(20,466,445)	(21,258,021)
Total net position (deficit)	\$ (20,113,146)	\$ (20,943,889)

RHODE ISLAND LOTTERY

Management's Discussion and Analysis

The majority of the Lottery's assets represent current resources necessary to pay the current liabilities owed to vendors, prize winners, video lottery participants, and ultimately the State's General Fund. At June 30, 2019, the Lottery's assets included \$27.7 million in cash and cash equivalents as compared with \$19.9 million at June 30, 2018. The Lottery's accounts receivable approximated \$10.7 million and \$8.3 million, respectively, at June 30, 2019 and 2018.

The Lottery's current liabilities at the balance sheet date are amounts owed for vendor payables, prize obligations and a residual amount owed to the State's General Fund for June 2019 net operations and operating expenses and June 2018 operating expenses. The amount owed to the General Fund for June net operations approximated \$2.0 million at June 30, 2019. At June 30, 2019, vendor payables, made up largely of commissions due to video lottery and sports book participants, and prize obligations, attributable mostly to instant ticket games were \$18.4 million and \$11.6 million, respectively. In comparison, vendor payables and prize obligations at June 30, 2018 were \$15.2 million and \$9.2 million, respectively.

Deferred outflows of resources related to pension and OPEB increased in fiscal 2019 compared to fiscal 2018 primarily due to increases in contributions made subsequent to the measurement date and increases in the Lottery's proportionate share of the net pension liability which is deferred and recognized over the remaining service life of members.

Deferred inflows of resources related to pension and OPEB decreased in fiscal 2019 compared to fiscal 2018 principally due to the expected recognition in pension and OPEB expense of amounts previously deferred.

The deficit in net position reported at June 30, 2019, as previously explained, relates to the Lottery's immediate transfer, in a prior fiscal year, to the State's General Fund, of all proceeds received from the sale of its exclusive rights over the operation of its gaming systems and the recognition of the Lottery's pension and OPEB liabilities. At June 30, 2019, a deficit balance of \$2.5 million remains relating to deferred contract revenue to be recognized proportionately over the remaining term of the Master Contract with its gaming systems provider. The Lottery recognizes its proportionate share of the net pension liability and net OPEB liability as a participating employer in the Pension Plan and the OPEB Plan. As required by RI General Laws, the Lottery's transfer to the State's General Fund is based on net income reflecting the actuarially determined employer contribution to the Pension Plan and OPEB Plan. Net income reported in the Lottery's financial statements reflects the recognition of pension expense and OPEB expense in accordance with generally accepted accounting principles.

RHODE ISLAND LOTTERY

Management's Discussion and Analysis

Lottery Operations

	June 30, 2019	June 30, 2018
Revenue:		
On-line games	\$ 160,361,098	\$ 159,663,457
Instant games	102,914,666	98,706,129
Sport Book	127,587,809	
Video lottery, net of related prize awards	522,754,625	481,372,523
Table games, net of related prize awards	163,442,908	145,831,110
Other income	1,445,827	1,445,312
Total revenue	1,078,506,933	887,018,531
Expenses:		
Cost of gaming operations	(668,616,251)	(510,223,301)
Operating expenses	(11,739,019)	(11,370,071)
Total expenses	(680,355,270)	(521,593,372)
Income before transfers	398,151,663	365,425,159
Transfers to State's General Fund	(397,320,920)	(364,974,453)
Increase (decrease) in net position	830,743	450,706
Total net position (deficit), beginning of year	(20,943,889)	(17,793,766)
Cumulative effect of GASB Statement No. 75 Implementation	-	(3,600,829)
Total net position (deficit), beginning as restated	(20,943,889)	(21,394,595)
Total net position (deficit), end of year	\$ (20,113,146)	\$ (20,943,889)

Revenue

Traditional Lottery

- Traditional Lottery games consist of on-line and instant ticket games. Distribution of the year's traditional lottery revenue was as follows:

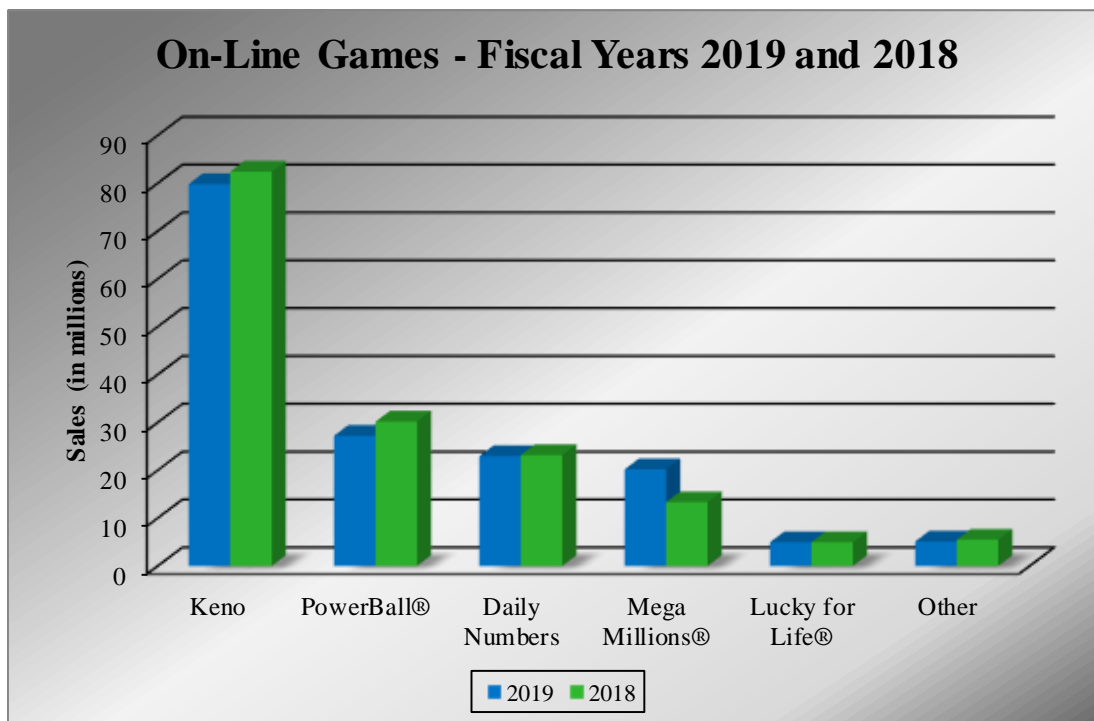


RHODE ISLAND LOTTERY

Management's Discussion and Analysis

- On-line games offered were PowerBall®, Mega Millions®, Keno, Bingo, Daily Numbers, Wild Money and Lucky for Life® during fiscal 2019. In total, on-line revenue increased by \$.7 million. Significant changes in on-line game revenue from the prior year included:
 - Revenue from Mega Millions® increased \$6.9 million for fiscal 2019 from the prior year. The increase was the result of October 2017 changes to the game increasing the price of a ticket to \$2 or \$3 with the Megaplier®, other game enhancements, and a record \$1.5 billion jackpot in October 2018.
 - Revenue from Bingo experienced a minor increase over the prior year.
 - Revenue from PowerBall®, Keno, Daily Numbers, and Lucky for Life® generally experienced minor decreases over the prior year.
- Instant ticket revenue for fiscal 2019 increased \$4.2 million over fiscal year 2018. During fiscal year 2019, the Lottery continued with its successful family of games and its holiday game offerings. The Lottery also introduced various high-price point tickets including the \$25 Cash Extravaganza \$10 Crossword, \$10 RI Cash Blowout, and \$5 Easy Money games.

The following graph depicts the Lottery's on-line sales for the fiscal years ended June 30, 2019 and 2018.



RHODE ISLAND LOTTERY

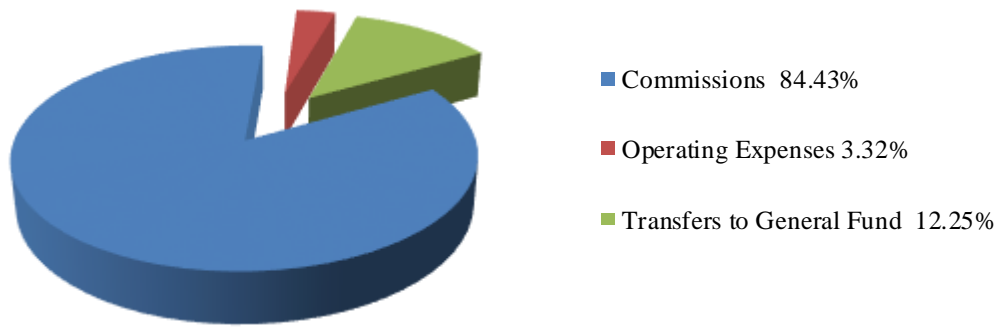
Management's Discussion and Analysis

Table Games

For the fiscal year ended June 30, 2019, net table game revenue was \$163.4 million, an increase of 12.1%. During fiscal year 2019, Tiverton Casino Hotel commenced operations in August 2018, offering 32 table games. Table games at Twin River – Lincoln increased the number of available gaming tables from 119 to 125. Stadium gaming commenced at Twin River – Lincoln in September 2018 offering 48 tables, and Tiverton Casino's stadium gaming commenced in October 2018 offering 18 tables. Hybrid stadium gaming consists of electronic wagering terminals in a stadium seating configuration allowing blackjack, roulette and mini-baccarat to be played concurrently with a live dealer.

Distribution of the year's net table game revenue was as follows:

Table Games - Net Revenue Distribution

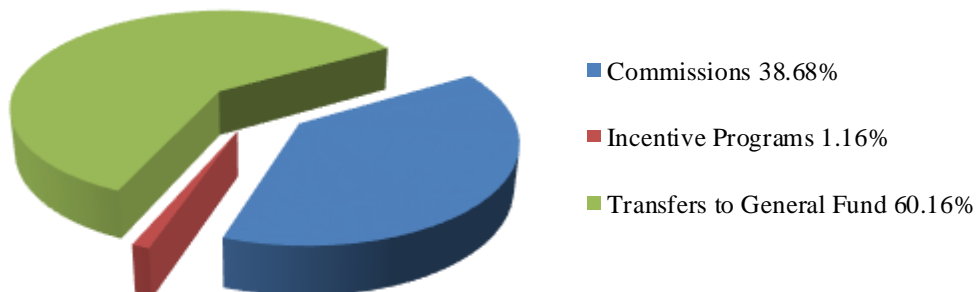


Video Lottery

Video lottery net revenue increased \$41.4 million or 8.6% from the prior fiscal year. Video lottery activity increased significantly with the opening of the Tiverton Casino Hotel in September 2018. Fiscal 2019 video lottery net terminal income at Newport Grand/Tiverton Casino Hotel increased 95.3% compared to fiscal 2018. Newport Grand operated in July and August 2018 and closed just prior to the opening of Tiverton in September 2018.

Distribution of the year's video lottery net revenue was as follows:

Video Lottery - Net Revenue Distribution



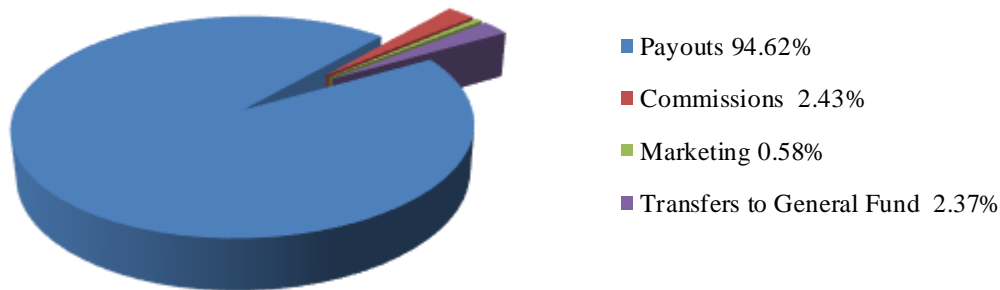
RHODE ISLAND LOTTERY

Management's Discussion and Analysis

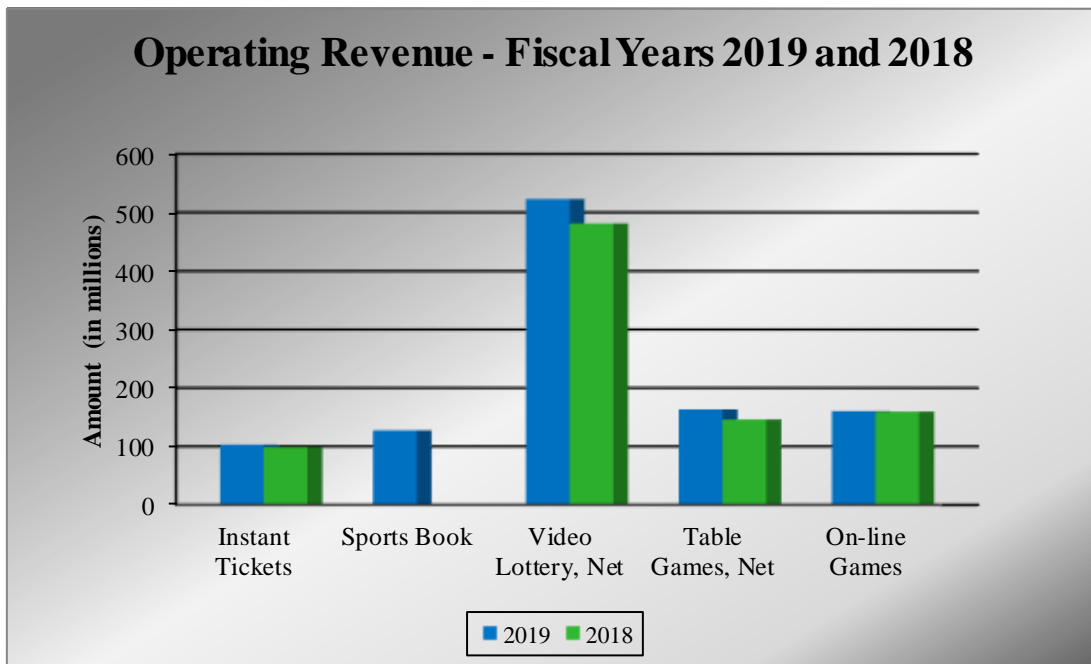
Sports Book

Sports Book betting operations began in November 2018 at Twin River Casino Hotel and in December 2018 at Tiverton Casino Hotel. Total sports betting revenues through June 30, 2019 totaled \$127.6 million. Gross profit transferred to the State General Fund from sports betting, after deducting payouts, commissions and marketing expenses was \$3.0 million.

Sports Book



The following graph depicts the Lottery's operating revenue for instant tickets, video lottery, table games, sports betting and on-line games for the fiscal year ended June 30, 2019 in comparison to fiscal year ended June 30, 2018.

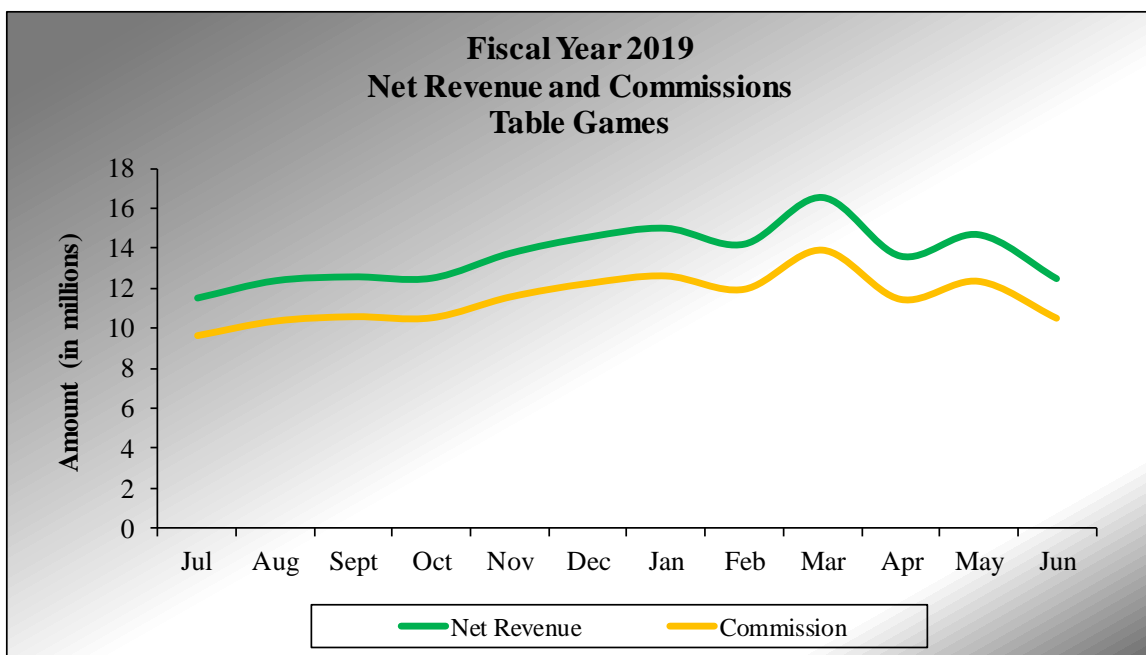
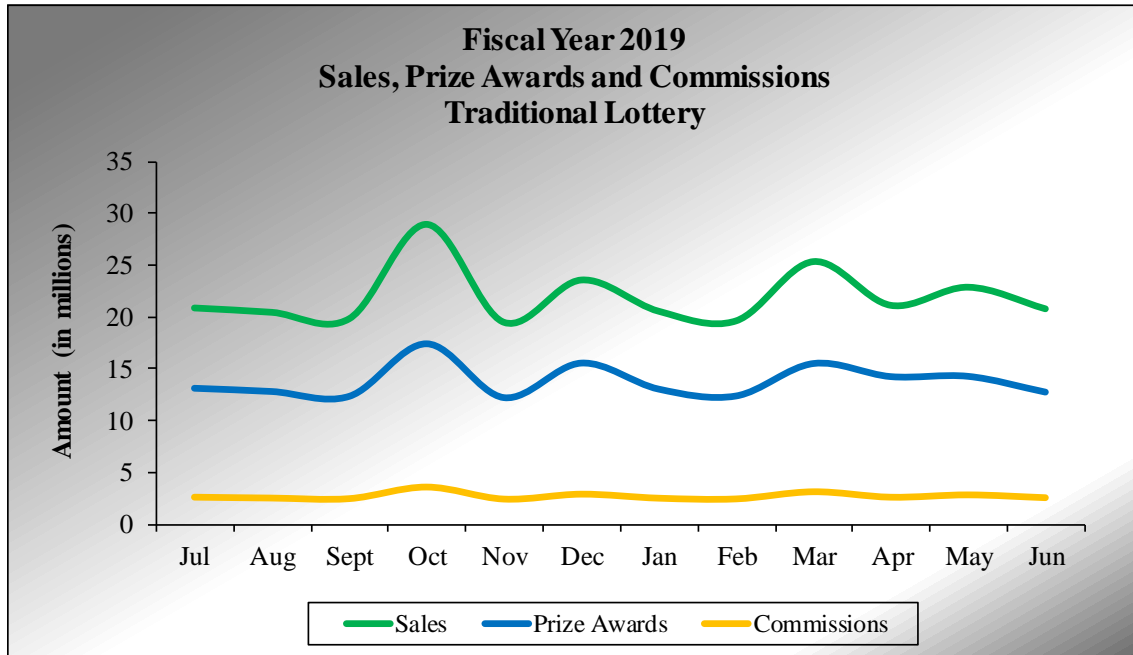


RHODE ISLAND LOTTERY

Management's Discussion and Analysis

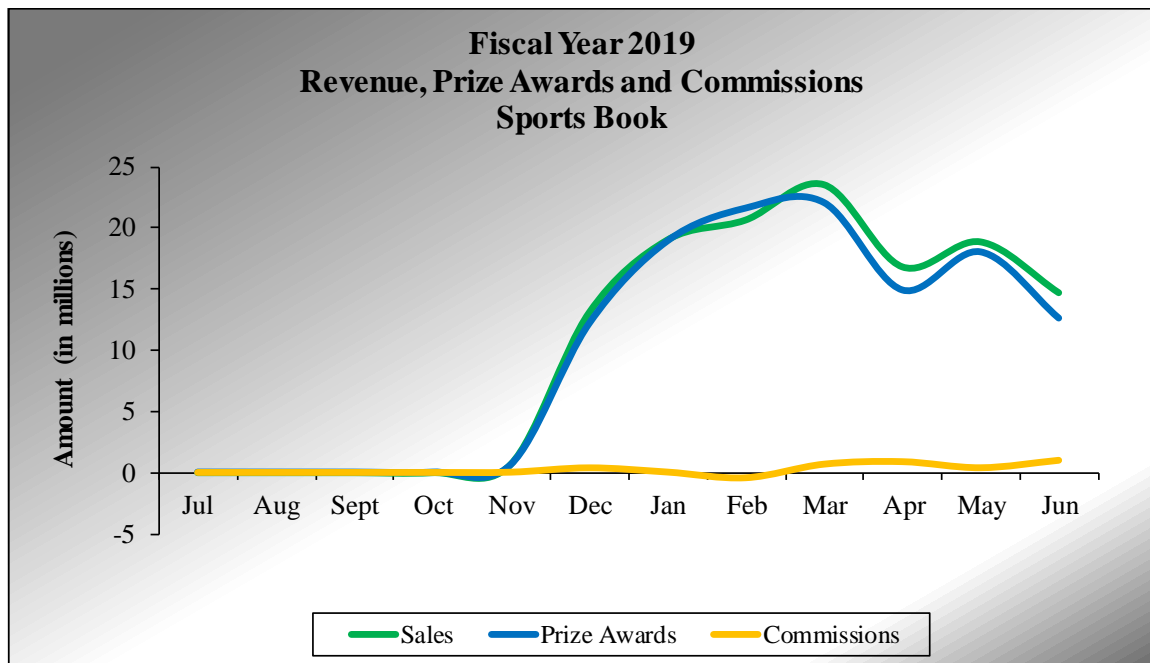
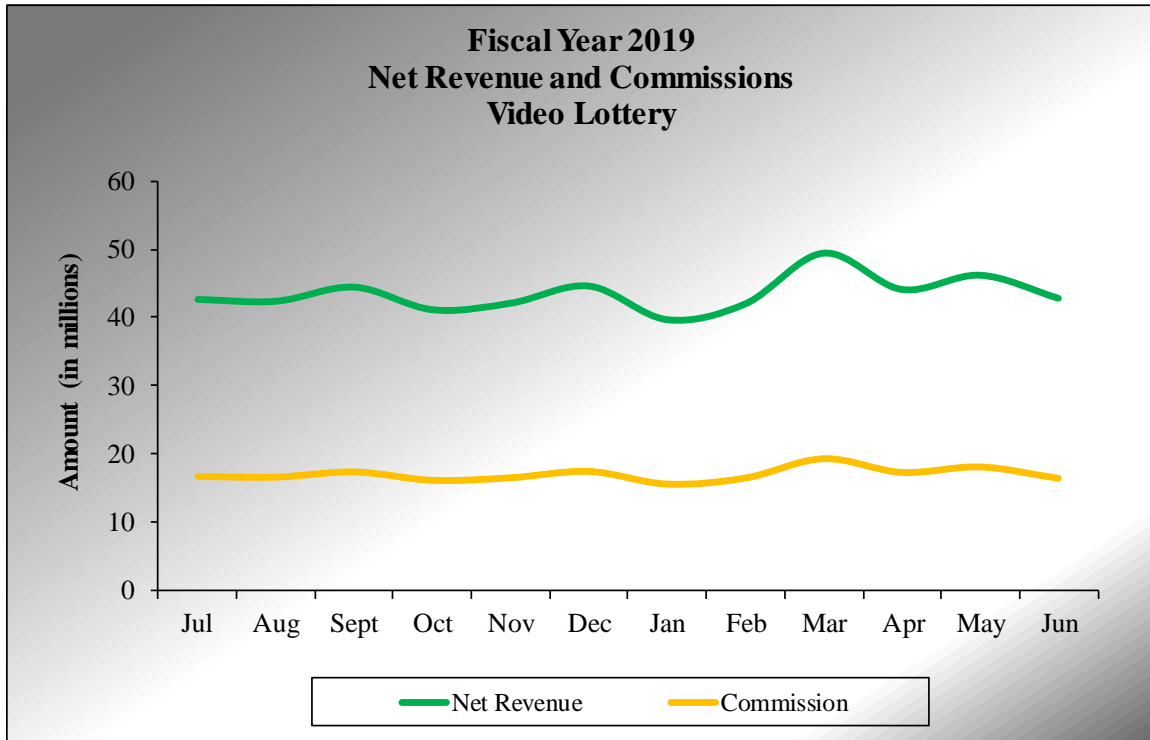
Commissions and Prize Awards Expense

As the following graphs depict, the Lottery's most significant expenses (commissions and prize awards) are predictable because they have a direct correlation to sales. As lottery revenues increase, so do the related prizes and commissions paid by the Lottery. While each Lottery game has a designed prize payout structure, the overall amount paid as prize awards expense is consistent in relation to sales. The second, third, and fourth graphs compare table game net revenue, video lottery net revenue, and sports book revenue and prizes to their related commissions.



RHODE ISLAND LOTTERY

Management's Discussion and Analysis

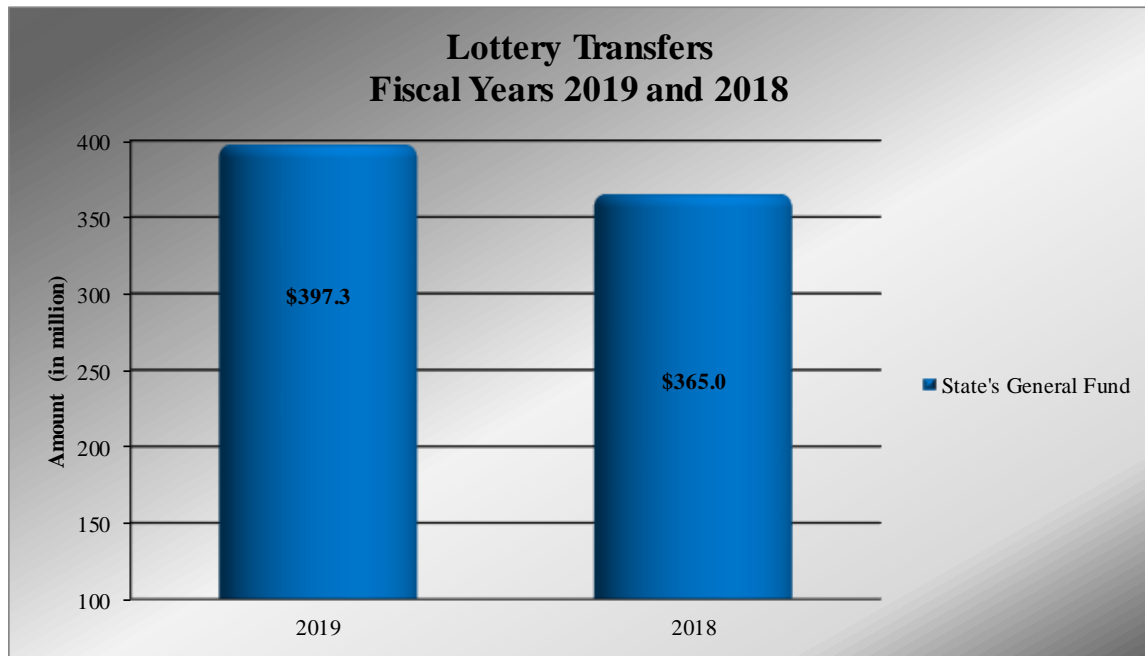


Lottery Transfers

Net income transferred by the Lottery for the fiscal years ended June 30, 2019 and June 30, 2018 was \$397.3 million and \$365.0 million, respectively. All fiscal 2019 transfers were made by the Lottery directly to the State's General Fund, as required by the General Laws.

RHODE ISLAND LOTTERY

Management's Discussion and Analysis



Debt Administration

Jackpot prizes awarded under PowerBall® and Mega Millions® are satisfied through investments purchased by the Multi-State Lottery Association (MUSL). MUSL purchases U.S. government obligations, which are held in irrevocable trusts established by MUSL for the benefit of participating state lotteries. Accordingly, the Lottery does not record an obligation for PowerBall® and Mega Millions® jackpot awards which are payable in installments from funds provided by MUSL.

The Lucky for Life® game offers top and second prize winners an annuity or cash option payment. Rhode Island had its first top prize winner in April 2019. The winner selected the cash option of \$5.75 million. If the annuity option is selected by the winner, the Lucky for Life® game requires each selling lottery to purchase an insurance annuity to fully fund the top and second prizes won in that state. All participating lotteries share in the cost of the insurance annuity or cash option, however, the selling lottery is responsible for settling the top and second prize liabilities. Annuities shall be purchased in accordance with the applicable laws of the state purchasing the annuity. Qualified insurance companies must meet the minimum rating requirements established by each participating state. Rhode Island plans to purchase its annuities for any future top prize winners selecting this option through MUSL from an insurance company with an AM Best rating of A or better. Rhode Island has purchased its second prize winners' annuities through MUSL in accordance with insurance company rating requirements.

Capital Assets

The Lottery purchases and maintains property and equipment necessary to sell lottery products, pay prizes and perform other lottery operations.

For further information, refer to Notes to Financial Statements, Note 4.

RHODE ISLAND LOTTERY

Management's Discussion and Analysis

Potential Factors Impacting Future Operations

The Lottery's mission is to generate revenues for the purpose of maximizing payments to the State's General Fund. A continuous assessment of the State's financial environment and the Lottery's own product lines and operations are essential to accomplish this mission. The following considerations have been presented to inform those interested in the Lottery's operations about potential factors that could affect future operations:

- The Lottery, in conjunction with their gaming partners, continuously explores new games and gaming functionalities to maximize revenue. Further expansion of sports betting began in September 2019 with the roll-out of mobile sports betting to players within the geographical limits of Rhode Island. Players may create and register a mobile account and then place wagers online for sporting events authorized by the Lottery Division.
- The facilities face increasing competition from surrounding casinos including Massachusetts casinos expanding in the region. In June 2019, a third Massachusetts casino, offering slot and table games, opened in Everett Massachusetts which significantly increase gaming options within the New England region. The Lottery and the State continually monitor the risk to gaming operations and assess and expand important revenue generating marketing and promotional programs to best enable competitive positions.
- Master video lottery contracts and amendments thereto with its video lottery facilities, Twin River – Lincoln and Twin River – Tiverton, include provisions for the continued operation of promotional play programs (free video terminal play) up to authorized amounts. These agreements also require the Lottery to reimburse the facilities for its net terminal income share of certain qualified marketing and promotional expenses thereby incentivizing the facilities to continue to invest appropriately in the promotion of their facilities and the Lottery's video and table games activities. See Note 12 to the financial statements for details regarding these agreements.
- Each facility now offers a full complement of gaming options including slots, table games, and sports betting and operates a hotel for the convenience of players and guests. This allows each facility to compete more effectively with gaming venues in nearby states.
- Expansion of internet access to existing retail Lottery products and digital only games is contemplated in fiscal 2020.

Contacting the Lottery's Financial Management

This financial report is designed to provide a general overview of the Lottery's financial activity for all those interested in the Lottery's operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Administrator, Rhode Island Lottery, 1425 Pontiac Avenue, Cranston, RI, 02920.

RHODE ISLAND LOTTERY

Statement of Net Position

June 30, 2019

Assets

Current assets:

Cash and cash equivalents (note 3)	\$ 27,664,723
Accounts receivable-less allowance for doubtful accounts of \$193,976	10,650,307
Ticket inventory	1,127,786
Deposits with Multi-State Lottery Association (MUSL) (note 1)	44,063
Prepaid Expense	10,000
Total current assets	39,496,879

Capital assets, net (note 4)	353,299
Total assets	39,850,178

Deferred outflows of resources - pension (note 9)	3,452,985
Deferred outflows of resources - OPEB (note 10)	678,777

Deferred outflows of resources	4,131,762
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Liabilities

Current liabilities:

Due to State's General Fund - net income from operations (note 5)	\$ 2,048,319
Due to State's General Fund - operating expenses (note 5)	39,381
Accounts payable	18,398,496
Obligation for unpaid prize awards	11,639,227
Accrued expenses	6,359,606
Compensated absences (note 7)	325,212
Advances for future drawings and events	594,280
Unearned contract revenue (note 8)	625,000
Total current liabilities	40,029,521

Long-term liabilities:

Compensated absences (note 7)	445,658
Net pension liability (note 9)	17,142,457
Net OPEB liability (note 10)	3,876,354
Unearned contract revenue (note 8)	1,875,000
Total long-term liabilities	23,339,469

Total liabilities	63,368,990
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Deferred inflows of resources - pension (note 9)	458,812
Deferred inflows of resources - OPEB (note 10)	267,284

Deferred inflows of resources	726,096
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Net position (deficit)

Net investment in capital assets (note 8)	353,299
Unrestricted (deficit) (note 8)	(20,466,445)
Total net position (deficit)	\$ (20,113,146)

See accompanying notes to financial statements.

RHODE ISLAND LOTTERY

Statement of Revenue, Expenses and Changes in Net Position

Year Ended June 30, 2019

Operating revenue (schedule 1):

Games reported - gross revenue	
On-line games	\$ 160,361,098
Instant games	102,914,666
Sports book	127,587,809
Games reported - revenue net of related prize awards	
Video lottery (note 2)	522,754,625
Table games (note 2)	163,442,908
Total operating revenue	<u>1,077,061,106</u>

Cost of gaming operations (schedule 1):

Commissions (note 6)	375,395,649
Prize awards expense (on-line, instant, and sports book)	285,987,368
Incentive programs, video lottery	6,053,466
Marketing/advertising expense	3,554,740
Unclaimed prize recovery	(3,300,542)
Cost of tickets	<u>925,570</u>
Total cost of gaming operations	<u>668,616,251</u>
Gross profit	<u>408,444,855</u>

Operating expenses:

Personnel services	10,855,702
Contract services	48,538
Depreciation and amortization	132,628
Other	<u>702,151</u>
Total operating expenses	<u>11,739,019</u>
Operating income	396,705,836

Non-operating income (expenses):

Investment income	553,497
Other income (expenses) - net	<u>892,330</u>
Income before transfers	398,151,663

Transfer to State's General Fund (note 5) (397,320,920)

Increase in net position 830,743

Total net position (deficit), beginning of year (20,943,889)

Total net position (deficit), end of year (note 8) \$ (20,113,146)

See accompanying notes to financial statements.

RHODE ISLAND LOTTERY

Statement of Cash Flows

Year Ended June 30, 2019

Cash flows from operating activities:

Receipts from lottery sales, online and instant games	\$ 263,162,235
Receipts from video lottery operations (net of prizes)	520,958,097
Receipts from sports book	127,656,908
Receipts from table games (net of prizes)	163,352,339
Receipts from MUSL for grand prize winners	104,941
Receipts from problem gambling program	315,000
Other receipts	290,555
Payments for on-line and instant ticket prizes	(160,803,002)
Sports book payouts	(119,417,531)
Payments to MUSL grand prize winners	(104,941)
Payments for commissions - retailers	(10,978,572)
Payments for commissions - video lottery	(202,766,906)
Payments for commissions - sports book	(1,333,416)
Payments for commissions - table games	(136,645,583)
Payments for commissions - on-line games contractor	(20,707,789)
Payments to facilities - video lottery incentive program	(6,127,515)
Payments to suppliers for goods and services	(4,889,991)
Payments to employees for services	(10,902,676)
Net cash provided by operating activities	<u>401,162,153</u>

Cash flows from noncapital financing activities:

Transfers to State's General Fund	<u>(393,791,945)</u>
Net cash used for noncapital financing activities	<u>(393,791,945)</u>

Cash flows from capital and related financing activities:

Purchase of capital assets	<u>(171,795)</u>
Net cash used for capital and related financing activities	<u>(171,795)</u>

Cash flows from investing activities:

Interest income	<u>553,497</u>
Net cash provided by investing activities	<u>553,497</u>
Net increase in cash and cash equivalents	7,751,910

Cash and cash equivalents at July 1, 2018	<u>19,912,813</u>
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Cash and cash equivalents at June 30, 2019	<u><u>\$ 27,664,723</u></u>
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See accompanying notes to financial statements.

Continued.

RHODE ISLAND LOTTERY

Statement of Cash Flows (Continued)

Year Ended June 30, 2019

Reconciliation of operating income to net cash provided by operating activities:	
Operating income	<u>\$ 396,705,836</u>
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:	
Depreciation and amortization	132,628
Miscellaneous receipts classified as operating activities	38,957
Rental income and other receipts	228,373
(Increase) decrease in assets and deferred outflows of resources:	
Accounts receivable	(2,358,970)
Deposits with MUSL	(865)
Inventory	327,481
Prepaid expense	(10,000)
Deferred outflows of resources - pension	(153,239)
Deferred outflows of resources - OPEB	(129,527)
Increase (decrease) in liabilities and deferred inflows of resources:	
Due to State's General Fund - operating expenses	(73,737)
Accounts payable	3,227,945
Obligation for unpaid prize awards	2,472,291
Accrued expenses and other	255,564
Net pension liability	273,434
Net OPEB liability	12,807
Advances for future drawings and events	422,393
Deferred inflows of resources - pension	(227,714)
Deferred inflows of resources - OPEB	<u>18,496</u>
Total adjustments	<u>4,456,317</u>
Net cash provided by operating activities	<u><u>\$ 401,162,153</u></u>

See accompanying notes to financial statements.

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2019

(1) Organization

The Lottery was created in 1974 under the General Laws of the State of Rhode Island (General Laws) to establish and operate lottery games for the purpose of generating resources for the State's General Fund. The Lottery is a division of the Department of Revenue of the State of Rhode Island (the State).

The Lottery offers the following games to the public:

(A) On-line (lottery drawing) games that include:

- i) Traditional in-state drawing games including Daily Numbers – Midday and Evening, Keno, Bingo, and Wild Money. The drawings for these games are administered by the Rhode Island Lottery and offer patrons set prize amounts or smaller progressive jackpots. Keno and Bingo are considered monitor games where drawings are held every 4 and 8 minutes, respectively, on “monitors” in sales locations across the State.
- ii) Multi-state games, which include Powerball® and Mega Millions®, are operated in accordance with rules and agreements established by the Multi-State Lottery Association (MUSL). These games offer jackpot prize awards to patrons in participating states. Specific details regarding the operations of these games are as follows:

(a) *PowerBall®*

The Lottery sells PowerBall® tickets, collects all revenues, and remits prize funds to MUSL net of low-tier prize awards. Jackpot prizes are payable in either a lump-sum cash distribution or annual installments. Annual installments are satisfied through investments purchased by MUSL. MUSL purchases U.S. government obligations, which are held in irrevocable trusts established by MUSL for the benefit of participating state lotteries. Accordingly, the Lottery does not record an obligation for jackpot awards which are payable in installments from funds provided by MUSL.

The prize pool for PowerBall® is 50% of each drawing period's ticket sales. MUSL may place up to 5% of each drawing period's ticket sales for PowerBall®, included as part of each member's prize liability, in prize reserve funds. The prize reserve deduction begins at 2% when an annuity jackpot exceeds \$120 million and 4% when an annuity jackpot exceeds \$250 million. The maximum balance on the prize reserve funds for PowerBall® is \$140 million. Once the prize reserve funds exceed this designated amount, the excess becomes part of the prize pool. The prize reserve funds serve as a contingency reserve to protect MUSL from unforeseen prize liabilities, and these reserve funds are to be used at the discretion of the MUSL Board of Directors. The prize reserve funds are refundable to MUSL members if MUSL disbands or if a member leaves MUSL. Members leaving MUSL must wait one year before receiving their remaining share, if any, of prize reserve funds.

Effective with the drawing held on July 2, 2016, at any time that the Grand Prize Carry Forward Pool (GPCFP) is below forty-five million dollars (\$45,000,000) prior to a drawing, the GPCFP deduction from a Party Lottery's Grand Prize Pool (GPP) contribution for that drawing shall be equal to a maximum of four percent (4%) of a Party Lottery's sales when the annuity Grand Prize exceeds one hundred twenty million dollars (\$120,000,000). The GPCFP percentage shall be reduced by the percentage of sales being actually contributed to the Set-Aside Pool (SAP), Set Prize Reserve Account (SPRA) or the Prize Reserve Account (PRA). At any time that the GPCFP exceeds forty-five million dollars (\$45,000,000) prior to a drawing, there shall be no GPCFP deduction for that drawing.

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2019

(1) Organization - (Continued)

At June 30, 2019, the prize reserve funds for the PowerBall® game reported a balance of \$120.3 million of which the Lottery's share was \$1.2 million. The Lottery records amounts, which are placed into the prize reserve funds, as prize awards expense when the related sales occur.

All investment earnings relating to the prize reserve funds are credited to an unreserved account for each member state. This account can be utilized to offset operating costs or for the promotion of any MUSL game as approved by the MUSL Board of Directors. The Lottery has recorded all income and operating expenses related to its unreserved account and has reported the balance of \$44,063 at June 30, 2019 on the Statement of Net Position as "Deposits with MUSL".

(b) *Mega Millions*®

MUSL participates as a member (or party) lottery of the Mega Millions® Product Group (a group of lotteries participating under an agreement between the Mega Millions® lotteries and MUSL to offer the Mega Millions® game within their State jurisdictions). The Rhode Island Lottery participates as a member of MUSL, in the sale of tickets, payment of prizes, and associated activities related to the Mega Millions® lottery game. As such, the Lottery sells Mega Millions® tickets, collects all revenues, and remits prize funds to MUSL net of low-tier prizes. Jackpot prizes are payable either in a lump-sum cash distribution or annual installments. Annual installments are satisfied through investments purchased by MUSL. MUSL purchases U.S. government obligations, which are held in irrevocable trusts established by MUSL for the benefit of participating lotteries. Accordingly, the Lottery does not record an obligation for jackpot awards which are payable in installments from funds provided by MUSL.

The prize pool for Mega Millions® shall consist of up to 52% of each drawing period's ticket sales. An amount of up to 2% of each drawing period's ticket sales may be placed in one or more prize pool reserve accounts. The maximum prize reserve account is \$100 million.

At June 30, 2019, the prize reserve account for the Mega Millions® game reported a balance of \$93.4 million of which the Lottery's share was \$863,560. The Lottery records amounts, which are placed into the prize reserve funds, as prize awards expense when the related sales occur.

- iii) Lucky for Life®, which is offered in twenty-six lotteries, operates under an agreement between the six New England states ("New England Lotteries") and the Arkansas Scholarship Lottery, the Colorado Lottery Commission, the Delaware Lottery, the Office of Lottery & Charitable Games, the Idaho Lottery, the Iowa Lottery Authority, the Kansas Lottery, the Kentucky Lottery Corporation, the Michigan Lottery, the Minnesota State Lottery, the Missouri Lottery, the Montana Lottery, the Nebraska Lottery, the North Carolina Lottery, the North Dakota Lottery, the Oklahoma Lottery Commission, the Ohio Lottery Commission, the South Carolina Education Lottery, the South Dakota Lottery, and the Wyoming Lottery Corporation (collectively referred to as the "Licensee Lotteries") to offer the Lucky for Life® game with a top prize of \$1,000 per day for life. The Lottery sells Lucky for Life® tickets, collects all revenues, and pays prizes based on its share of total sales, as a party lottery operating the game. The party lotteries have entered into an agreement with MUSL to administer certain aspects of the game. MUSL communicates and collects the share of prize amounts owed by each party lottery. The top prize and second prize are paid in accordance with official game rules and is shared based on each state's percentage of sales in proportion to the total top prize liability. Total low-tier prizes are shared based on a percentage of sales in proportion to the total low-tier prize liability.

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2019

(1) Organization - (Continued)

Top Prize Settlement

All top prizes are funded through the purchase of insurance annuities with an alternative cash option. For the annuity option, top prizes are based on a \$365,000 deferred annuity paid annually based on the winner's natural life with a minimum payment period of 20 years. If there is more than one top prize winner, up to 14 winners, the annuitized prize will be split equally, including the number of top prize winners exercising the cash option, with a minimum value of \$500 per week to each winner exercising the annuity option.

For top prizes claimed in Rhode Island, the Lottery will utilize MUSL to purchase insurance annuities to satisfy the prize liability. The Lottery has adopted the following minimum qualification requirements for insurance companies providing insurance annuities for top prize winners:

- An AM Best rating of A or better;
- At least \$100 million in capital and surplus;
- At least \$1 billion in assets per the balance sheet of the company's most recently audited financial statements prepared by an independent certified public accountant; and
- A National Association of Insurance Commissioners' (NAIC) risk-based capital (RBC) rating of 200% or greater.

In the event of default on an insurance annuity for a Rhode Island winner, the Lottery may be contingently liable for any remaining prize amounts due the winner.

As an alternative to the annuitized payment option, the top prize winner may request the top prize cash option payment of \$5,750,000. If there is more than one top prize winner, the top prize cash option will be divided by the total number of prize winners, including top prize winners selecting the annuitized payment option.

If more than 14 top prize winners, the top prize liability will be split equally among all top prize winners and paid in one lump sum cash payment, without an annuitized option.

Second Tier Prize Settlement

For up to 20 second prize winners, including those who exercise the cash option, the annuity payment option will be \$25,000 per year for life to second prize winners exercising the annuity option. For up to 20 second prize winners, including those who exercise the annuity option, the cash option will be \$390,000 to each second prize winner exercising the cash option.

If more than 20 second prize winners, the second prize liability is capped and will be split equally among all second prize winners and paid in one lump sum cash payment, without an annuitized option.

All low-tier prizes (all levels except the top prize and second prizes) are paid in one lump sum cash payment through the Selling Lottery. There is a reconciliation by the Game Administrator for both low-tier and unclaimed expired prizes (prize levels 2-10) when a party lottery varies from its projected prize liabilities and its unclaimed expired prizes.

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2019

(1) Organization - (Continued)

- (B) Instant (or scratch) ticket offerings sold through licensed lottery retailers include a wide array of themed games where patrons must match two or three of a kind, get like symbols or bonus features, or meet other game requirements to win the prize shown.
- (C) Video lottery games are operated through 5,107 video lottery terminals (VLTs) at two licensed facilities, Twin River Casino Hotel and Tiverton Casino Hotel. Both licensed facilities are owned and operated by Twin River Worldwide Holdings, Inc. Video lottery offers various virtual and multi-layer display games, hosting a wide array of card and theme games to the public.
- (D) Table games are operated at Twin River Casino Hotel and Tiverton Casino Hotel. Chapter 42-61.2 of the General Laws authorizes the State to operate casino gaming, and the Lottery Division to promulgate rules and regulations and set policy for table gaming. This chapter stipulates the allocation of net table game revenue. Consistent with the General Laws, net table game revenue is deposited in the State Lottery Fund for administrative purposes with commissions distributed to Twin River Casino Hotel, Tiverton Casino Hotel, the Town of Lincoln, RI, and the Town of Tiverton, RI, and the balance being remitted to the General Fund. Upon the opening of Tiverton Casino Hotel, commission for both casino facilities and the respective host community were 83.5% and 1%.
- (E) Sports Book wagering was operational at the Twin River Casino Hotel in November 2018 and in December 2018 at the Tiverton Casino Hotel. The sports book offers multiple wagering opportunities for professional and college events (excluding Rhode Island college events), Olympic or international sporting events, etc. in line with industry standards. Chapter 42-61.2 of the General Laws authorizes the State through the Lottery Division to implement, operate, conduct and control sports wagering at Twin River Casino Hotel and Tiverton Casino Hotel gaming facilities. The State, through the Division of Lottery, has full operational control, as defined by the statute.
- (F) Prize payout percentages and amounts required to be paid to the State's General Fund as stipulated in the General Laws are summarized below for the various games operated by the Lottery.

Game	Prize Payout	Mandated Payments to the State
Daily Numbers Instant Ticket Games PowerBall® Mega Millions® Wild Money Lucky for Life® Bingo	Not less than 45% or more than 65% of sales	Payments to the General Fund – net of prizes, commissions, administrative and operating expenses.
Keno	Not less than 45% or more than 72% of sales	Payments to the General Fund – net of prizes, commissions, administrative and operating expenses.
Video Lottery	Prize payout not established by law	Payments to the General Fund - net terminal income (video lottery credits purchased less credits redeemed or redeemable, including prize contributions to multi-state video lottery progressive jackpots) minus commission payments and incentive program reimbursements.
Table Games and Stadium Gaming	Prize payout not established by law	Payments to the General Fund - net table game revenue minus commission payments and table game administrative and operating expenses.
Sports Book	Prize payout not established by law	Payments to the General Fund – book revenue (accrual write less accrual payout) minus commission payments net of statutory host Town fees and approved marketing expenses.

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2019

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The financial records of the Lottery, an enterprise fund, are accounted for using the economic resources measurement focus and are maintained on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the related liabilities are incurred. The Governmental Accounting Standards Board (GASB) has the responsibility for establishing generally accepted accounting principles for governmental proprietary fund type activities.

(b) Reporting Entity

The Lottery, a division of the Department of Revenue of the State of Rhode Island and Providence Plantations (State), is accounted for as an enterprise fund for financial reporting purposes.

Accordingly, its annual financial statements are included in the State's Comprehensive Annual Financial Report (CAFR). The accompanying financial statements are not intended to present the financial position and results of operations of the State.

(c) Revenues and Expenses

The Lottery defines all revenues and expenses deriving from on-line, instant ticket, video lottery, table games, and sports betting as operating. The Lottery accrues for the maximum prizes payable. Prize obligations, other than those relating to prizes payable in installments, that remain unclaimed one year after the drawing date are reported as a reduction to cost of sales.

Revenue from the sale of lottery tickets, video lottery, table games, and sports betting and expenses for prizes and commissions are recognized as follows:

1. On-line lottery games with specific drawing dates - when the related drawings are held. For the Mega Millions[®] and Powerball[®], prize awards expense is recorded equal to the required contributions to the jackpot pool and low-tier prizes won. For the Lucky for Life[®] game, prize awards expense is recorded equal to the estimated cost of actual prizes won. Prize awards expense is subsequently adjusted based on the Lottery's share of purchased annuities for the top prize and a settlement for actual low tier prizes won in all participating states.
2. Instant ticket lottery games - when ticket packets are charged to retailers. Prize expense is recognized in proportion to the number of tickets sold based on the stated prize structure for a specific instant ticket game.

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2019

(2) Summary of Significant Accounting Policies – (Continued)

3. Video lottery games - are reported on a net basis. Gross revenue is recognized when game credits are purchased via cash or credit redemption at the terminal (gross terminal inputs). Related prizes are recognized when game credits are issued by a video lottery terminal making them redeemable as credits in another video terminal or for cash by a patron (gross terminal outputs).

The gross video lottery terminal inputs and outputs for fiscal 2019 and reported video lottery net revenue are detailed in the following schedule:

Schedule of Video Lottery Net Revenue For the Fiscal Year Ended June 30, 2019	
Video Terminal Cash-In (Gross Terminal Inputs):	
Cash collected from video lottery terminals	\$ 1,605,040,139
Plus: Credit vouchers redeemed for play in video lottery terminals	<u>2,146,544,010</u>
Total cash in reported by video lottery terminals	3,751,584,149
Less:	
Video Terminal Cash-out (Gross Terminal Outputs):	
Video lottery credit vouchers issued by video lottery terminals	3,228,814,082
Plus: Contributions to progressive video jackpots from patron play	<u>15,442</u>
Total cash-out amounts reported by video lottery terminals	<u>3,228,829,524</u>
Video lottery revenue, net	<u><u>\$ 522,754,625</u></u>

4. Table games, with the exception of poker, are reported on a net table game (win) basis from the Twin River Casino Hotel and Tiverton Casino Hotel facilities. Net table game revenue, calculated daily at each table, is cash in the drop box, plus front money (patron funds left on deposit with the facility that are drawn for chips at a table), plus markers (credit extended at a table to patrons in exchange for chips), less fills, plus credits, less beginning chip inventory, plus ending chip inventory, plus one-half of match play and free bet coupons redeemed. Poker games revenue is reported on a gross fee basis, referred to as poker rake, from the Twin River Casino Hotel facility. Poker rake calculated daily at each table is based upon a percentage of each poker pot or a direct fee charged to each player in proportion to the time spent playing at the poker table.
5. Stadium Gaming is reported on a net table game (win) basis from the facilities. Net table game revenue, calculated daily at each table, is tickets in, plus cash in, less tickets issued and less toke (dealer gratuities).

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2019

(2) Summary of Significant Accounting Policies – (Continued)

The State, through the Division of State Lottery, has operational control and regulating authority to collect casino gaming gross receipts, allocate receipts according to statute, define and limit the rules of play and odds of authorized games including minimum and maximum wagers and payouts for each game. Amounts required by statute to be paid to the two state pari-mutuel facilities are reported as commissions. The statute further stipulates that the Division of State Lottery establish rules and regulations and set policy for table games. These policies and regulations (promulgated in accordance with the Lottery's established minimum control standards and federal and State statute) stipulate that the table games retailers (Twin River Casino Hotel and Tiverton Casino Hotel) be responsible for obtaining approved equipment (tables, dice, cards, etc.) and bearing all risk for the management, security, and monitoring of authorized table games. The retailers are also responsible for marketing table games and all related expenses. The Lottery Division incurs operating and administrative costs relating to the oversight and regulation of casino operations which are netted against the State's statutory share of net table game revenue prior to transferring the balance to the State's General Fund.

6. Sports betting is reported on an accrual book revenue basis as of the completion of each sporting event. Book revenue is derived by event by calculating accrual write minus accrual payout. The State, through the Division of State Lottery, has authority to implement, operate, conduct and control sports wagering at the State's two licensed facilities. The statute further stipulates the Division Director promulgates rules and regulations related to sports wagering and sets policy including approving standards, rules and regulations to govern the conduct of sports wagering and the associated sports wagering system. Amounts required by statute to be paid to the facilities and the system operator, after deducting statutory payments to host Towns and agreed upon marketing expenses, are reported as commissions. Allocation of book revenue from sports wagering after payments to host Towns and approved marketing expenses, are at statutory percentages.

All expenses directly attributable to providing or promoting lottery games to the public are considered costs of gaming operations and are reported as such on the Lottery's Statement of Revenue, Expenses, and Changes in Net Position. These expenses predominantly include commissions to lottery retailers, gaming facilities, video lottery terminal providers, gaming system operators, and the cities/towns that host the Lottery's gaming facilities, in addition to advertising, marketing and promotional expenses.

Other expenses directly attributable to the Lottery's support and oversight of gaming activities are reported as operating expenses. Operating expenses mostly consist of personnel costs, contract services, depreciation/amortization expenses, and other expenses associated with the maintenance of the Lottery's headquarters and internal computer network.

All other revenues and expenses are defined as non-operating. Non-operating revenues include income from pull tab tickets (the Lottery is not responsible for prizes won), rental income, and refunds from the Multi-State Lottery Association.

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2019

(2) Summary of Significant Accounting Policies – (Continued)

(d) *Capital Assets*

Capital assets are stated at historical cost. Depreciation is computed using the straight-line method based on the estimated useful lives of the assets. Asset and useful lives are as follows:

<u>Asset Category</u>	<u>Useful Life</u>	<u>Threshold</u>
Buildings	50 years	\$1,000,000
Building Improvements	20 years	\$1,000,000
Computer Equipment	5 years	\$5,000
Furniture and Equipment	5 years	\$5,000
Automobiles	5 years	\$5,000

In addition, the Lottery capitalizes certain intangible assets and amortizes those assets over their expected benefit period. The Lottery adheres to the State's capitalization thresholds and estimated useful lives for capital asset categories.

(e) *Cash Equivalents*

Cash equivalents consist of highly liquid investments with a maturity date of three months or less at the time of purchase and are stated at cost plus accrued interest which approximates fair value.

(f) *Investments*

Investments are recorded at fair value except for certain money market investments that have a remaining maturity at the time of purchase of one year or less, which are recorded at a net asset value reflective of amortized cost which approximates fair market value. Fair value is defined by GASB Statement No. 72, *Fair Value Measurement and Application (GASB 72)*, as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of inputs to valuation techniques used to measure fair value. The hierarchy has three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, such as management's assumptions.

(g) *Ticket Inventory*

Inventory consists of the cost of tickets for the instant games, which is expensed as a percentage of sales from instant ticket games.

(h) *Advances for Future Drawings/Events*

Tickets can be purchased in advance of scheduled drawing dates. Revenue from advance ticket sales is recognized during the period in which the related drawing is held. Sports wagers may be made in advance for future athletic events (futures) and revenue is recognized at the time the athletic event is completed.

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2019

(2) Summary of Significant Accounting Policies – (Continued)

(i) Unearned Contract Revenue

Unearned contract revenue relates to the sale of the exclusive rights to the operation of the Lottery's gaming systems. The revenue is recognized ratably over the life of the contract.

(j) Incentive Programs – Video Lottery

The Lottery reimburses its contracted video lottery facilities for the State's share (net terminal income percentage) of certain marketing and promotional expenses incurred by the facilities. Complete details of the Lottery's reimbursement are disclosed in Note 12, Commitments.

(k) Compulsive and Problem Gambling Program

Pursuant to section 42-61.2-14 of the Rhode Island General Laws, the Lottery is required to establish a program for compulsive and problem gamblers in conjunction with Twin River Casino Hotel and Tiverton Casino Hotel to include awareness, player self-exclusion, and promotion of a problem gambling hotline. The program is funded through aggregate reimbursements made by Twin River Casino Hotel and Tiverton Casino Hotel totaling not less than \$125,000 annually. The Lottery received \$315,000 from gaming facility providers toward the operation of its compulsive and problem gambling program. At June 30, 2019, the Lottery advanced \$99,204 for program expenditures in excess of amounts received from the gaming facility providers at June 30, 2019. The Lottery's advance will be repaid through subsequent receipts from the gaming facility providers for the compulsive and problem gambling program. This program is not included within the operating revenue and related expenses of the Lottery.

(l) Pensions

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 Employees' Retirement System ("ERS") and the additions to/deductions from ERS' fiduciary net position have been determined on the same basis as they are reported by ERS. 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.

(m) Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the State Employees' and Electing Teachers OPEB System of the State of Rhode Island (the System) and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, the System recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments that have a maturity at the time of purchase of one year or less, which are reported at cost.

(n) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those amounts.

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2019

(2) Summary of Significant Accounting Policies – (Continued)

(o) New Accounting Pronouncements

The Lottery evaluates the impact of all new accounting pronouncements issued by the Governmental Accounting Standards Board. For fiscal 2019, no newly effective statements required implementation by the Lottery. In subsequent years, the Lottery will consider the impact, if any, of GASB Statement No. 84, *Fiduciary Activities* and GASB Statement No. 87, *Leases*. Lottery management has not yet determined the effect that these statements will have on the financial statements for future periods.

(3) Deposits and Investment Risk

(a) Deposits

The Lottery's cash deposit balances at June 30, 2019 totaled \$24,939,150, with corresponding bank balances totaling \$24,961,125. The bank balances consisted of \$866,946 in demand deposit accounts and \$24,094,179 in collateralized deposit investment accounts.

All deposits were in the custody of the State General Treasurer. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the Lottery's (or State's) name.

In accordance with Chapter 35-10.1 of the General Laws, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State, shall at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than 60 days. Any of these institutions which do not meet capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to 100% of deposits, regardless of maturity. None of the cash deposits of the Lottery were required to be collateralized at June 30, 2019 pursuant to Chapter 35-10.1 of the General Laws. However, the State Investment Commission has adopted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to 102% of the uninsured deposit amounts. Of the total bank deposit balance totaling \$24,961,125 at year end, the entire amount was either covered by federal depository insurance or collateralized by securities held by an independent third-party custodian.

(b) Investments - Fair Value Measurements

All investments, principally cash equivalent type investments, are made by the State General Treasurer in accordance with guidelines established by the State Investment Commission (SIC), which is responsible for the investment of all State funds. Pursuant to Chapter 35-10 of the General Laws, the SIC may, in general, "invest in securities as would be acquired by prudent persons of discretion and intelligence in these matters who are seeking a reasonable income and the preservation of their capital."

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2019

(3) Deposits and Investment Risk– (Continued)

The Lottery categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

At June 30, 2019, the Lottery had a single investment consisting of \$2,725,573 in the Ocean State Investment Pool Trust (OSIP), an investment pool established by the State General Treasurer. The Lottery's OSIP investment represented less than 1% of the total OSIP Pool Trust at June 30, 2019. Agencies, authorities, commissions, boards, municipalities, political subdivisions, and other public units of the State may invest in OSIP. OSIP issues a publicly available financial report that can be obtained by writing to the Office of the General Treasurer, Finance Department, 50 Service Avenue - 2nd Floor, Warwick, RI 02886.

OSIP has met the criteria outlined in GASB Statement No. 79 – *Certain External Investment Pools and Pool Participants* to permit election to report its investments at amortized cost which approximates fair value. The OSIP is not rated and the weighted average maturity of investments held in the pool, by policy, is not to exceed 60 days. OSIP transacts with its participants at a stable net asset value (NAV) per share. Investments reported at the NAV are not subject to the leveling categorization as described above. There are no participant withdrawal limitations.

Custodial Credit Risk: Investment securities are exposed to custodial risk if the securities are uninsured, are not registered in the name of the government and are held by either: a) the counterparty or b) the counterparty's trust department or agent but not in the government's name.

Pursuant to guidelines established by the SIC, securities purchased, or underlying collateral, are required to be delivered to an independent third-party custodian.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Based on SIC policy, the State's short-term investment portfolio, whenever possible, will be structured to minimize interest rate risk, by matching the maturities of investments with the requirements for funds disbursement. The Lottery's investments are typically money market mutual funds or investments with maturities less than 30 days thereby minimizing the Lottery's exposure to interest rate risk.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The SIC has adopted policies regarding acceptable short-term investment types. Credit risk is mitigated by the SIC's minimum rating criteria policy, collateralization requirements, and limiting the maximum participation by any one issuer to 35% of the State's total short-term investment portfolio. Credit risk policies have been developed for investments in commercial paper.

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2019

(3) Deposits and Investment Risk– (Continued)

Concentration of Credit Risk: The SIC has adopted limitations as to the maximum percentages of the State's total short-term investment portfolio that may be invested in a specific investment type or with any one issuer of securities.

Cash deposits, including interest-bearing investment deposit accounts	\$ 24,939,150
Investments classified as cash equivalents	<u>2,725,573</u>
Cash and cash equivalents	<u><u>\$ 27,664,723</u></u>

(4) Capital Assets

Lottery headquarters are situated on land owned by the State of Rhode Island. The State has assigned custody, control and supervision of the land to the Lottery at no cost. However, since title to such land remains vested in the State, it is not recorded in the statement of net position.

A summary of capital assets follows:

	Estimated Useful Life	Balance at June 30, 2018	2019 Additions	2019 Disposals	Balance at June 30, 2019
<u>Cost</u>					
Building	50	\$ 1,437,912			\$ 1,437,912
Building improvements	20	1,937,228			1,937,228
Ticket production equipment	5	11,486			11,486
Office equipment	5	95,733	17,517		113,250
Furniture and fixtures	5	109,093			109,093
Lottery drawing equipment	5	96,935			96,935
Automobiles	5	431,826	144,366	(101,172)	475,020
Computer equipment	5	108,766	9,912		118,678
Intangible Assets	7	175,424			175,424
Total		<u>\$ 4,404,403</u>	<u>\$ 171,795</u>	<u>\$ (101,172)</u>	<u>\$ 4,475,026</u>
<u>Less: Accumulated Depreciation and Amortization</u>					
Building		\$ 1,437,912			\$ 1,437,912
Building improvements		1,867,464	7,928		1,875,392
Ticket production equipment		11,486			11,486
Office equipment		89,487	3,517		93,004
Furniture and fixtures		85,986	6,589		92,575
Lottery drawing equipment		91,538	3,588		95,126
Automobiles		304,667	69,978	(101,172)	273,473
Computer equipment		61,811	15,968		77,779
Intangible Assets		139,920	25,060		164,980
Total		<u>\$ 4,090,271</u>	<u>\$ 132,628</u>	<u>\$ (101,172)</u>	<u>\$ 4,121,727</u>
Capital assets, net		<u>\$ 314,132</u>	<u>\$ 39,167</u>	<u>\$ -</u>	<u>\$ 353,299</u>

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2019

(5) Transfers to the State

- (a) The Lottery is required to transfer net proceeds from the Lottery's games in accordance with RI General Laws sections 42-61-15 and 42-61.2-7. Transfers to the State's General Fund for fiscal 2019 are reported as follows in the Lottery's financial statements:

Due from State's General Fund, beginning of year	\$ (1,480,656)
Transfers to State's General Fund	397,320,920
Cash paid during fiscal year	(393,791,945)
Due to State's General Fund, end of year	<u>\$ 2,048,319</u>

In accordance with the Rhode Island General Laws, the Lottery transfers net income to the State's General Fund based on the Lottery's actual pension and OPEB contributions (which are the actuarially determined contributions required by law) to the State's pension plan and OPEB plan. Pension and OPEB expense reported in the Lottery's financial statements in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is a different amount reflecting the change in the net pension and OPEB liabilities during the fiscal year. The table below details the amount transferred to the General Fund as required by RI General Laws:

<u>Description</u>	<u>Amount</u>
Income before Transfers	\$ 398,151,663
Add: Pension expense in accordance with GASB Statement No. 68	1,630,317
Less: Pension contributions made subsequent to measurement date	(1,737,836)
Add: OPEB expense in accordance with GASB Statement No. 75	302,736
Less: OPEB contributions made subsequent to measurement date	(400,960)
Less: Contract revenue recognized in 2019 transferred to the General Fund in prior period	(625,000)
Transfers to State's General Fund	<u>\$ 397,320,920</u>

- (b) The Lottery also reimburses the State's General Fund for certain operating expenses associated with personnel costs, information technology resources, utilities, etc. Amounts owed to the General Fund at year-end for operating expenses totaled \$39,381.

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2019

(6) Commissions

The Lottery pays commissions to ticket retailers and its on-line games contractor based on a percentage of gross ticket sales. Video lottery commissions, as specified in the General Laws, are paid to the facility operators, technology providers (video lottery terminal providers), the central communications provider and others based on various percentages of net terminal income (video lottery credits purchased less credits redeemed or redeemable plus progressive jackpots). Table games commissions, as specified in the General Laws, are paid to Twin River Casino Hotel and Tiverton Casino Hotel and the Towns of Lincoln, RI and Tiverton, RI. Sports book commissions, as specified in the General Laws, are paid to the facility operators and the system operator after flat fees to the Town of Lincoln, RI and Tiverton, RI and after approved marketing expenses.

The General Laws provide for reductions of certain video lottery commissions. The amount reduced is to be credited to the State's Distressed Communities Relief Fund, which is part of the State's General Fund. The Lottery has reflected the actual video commissions paid as an expense. The amount to be credited to the Distressed Communities Relief Fund is included in the payments to the State's General Fund.

(7) Compensated Absences

The Lottery accrues an estimated liability for vested benefits relating to future compensated absences. This includes an expected obligation in connection with vacation credits, pay reduction credits, and accumulated vested sick pay for those employees eligible for retirement. The liability for compensated absences was approximately \$770,870 as of June 30, 2019 and is recorded as a liability in the Statement of Net Position. The current portion of \$325,212, as reported, was estimated based on a four-year average of employee utilization.

Changes in the reported liability for compensated absences for fiscal 2019 are as follows:

	Balance at July 1, 2018	Increase	Decrease	Balance at June 30, 2019
Liability for Compensated Absences	\$634,299	\$541,244	\$404,673	\$ 770,870

(8) Net Position - (Deficit)

Components of Unrestricted (Deficit):

- *Balance of prior year advance to the General Fund prior to contract revenue recognition* - On May 12, 2003, the Lottery entered into a 20-year contract, effective July 1, 2003, with its gaming system provider. The contract granted the provider the right to be the Lottery's exclusive vendor of hardware and software, together with the related services necessary for the operation of the Lottery's computerized games, through June 30, 2023. In return, the provider made a one-time payment of \$12.5 million to the Lottery as consideration for this exclusive contract right. The Lottery recorded unearned contract revenue in the amount of \$12.5 million and transferred the cash to the State's General Fund on June 30, 2003. This prior year transfer of unearned contract revenue resulted in a deficit in net position at June 30, 2019 of \$2.5 million. As the contract revenue is recognized over the twenty-year life of the contract, the deficit in net position will be reduced by \$625,000 per year. Accordingly, the Lottery has recognized \$625,000 as the current portion of unearned revenue as of June 30, 2019.

RHODE ISLAND LOTTERY

Notes to Financial Statements
Year Ended June 30, 2019

(8) Net Position - (Deficit) – (Continued)

- *Proportionate share of Net Pension Liability in accordance with GASB Statement No. 68, Accounting and Financial Reporting for Pensions* – the Lottery recognizes its proportionate share of the State’s net pension liability for the Pension Plan. The Lottery’s net pension liability at June 30, 2019 was \$17,142,457, which constitutes a significant portion of the unrestricted deficit reported on the Statement of Net Position at June 30, 2019. As required by RI General Laws, the Lottery’s transfer to the State’s General Fund is based on net income reflecting the actuarially determined employer contribution to the Employees’ Retirement System. Net income reported in the Lottery’s financial statements reflects the recognition of pension expense in accordance with generally accepted accounting principles.
- *Proportionate share of Net OPEB Liability in accordance with GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* – the Lottery recognizes its proportionate share of the State’s net OPEB liability for the OPEB Plan. The Lottery’s net OPEB liability at June 30, 2019 was \$3,876,354, which constitutes a portion of the unrestricted deficit reported on the Statement of Net Position at June 30, 2019. As required by RI General Laws, the Lottery’s transfer to the State’s General Fund is based on net income reflecting the actuarially determined employer contribution to the OPEB Plan. Net income reported in the Lottery’s financial statements reflects the recognition of OPEB expense in accordance with generally accepted accounting principles.

Net investment in capital assets:

- The Lottery’s net position (deficit) at June 30, 2019 also includes its net investment in capital assets. The Lottery had no debt related to capital assets at June 30, 2019.

(9) Retirement Plans

Plan description - Employees of the Lottery participate in a cost-sharing multiple-employer defined benefit pension plan – the Employees’ Retirement System Plan - administered by the Employees’ Retirement System of the State of Rhode Island (the “System”). Under a cost sharing plan, pension obligations for employees of all employers are pooled and plan assets are available to pay the benefits of the employees of any participating employer providing pension benefits through the plan, regardless of the status of the employers’ payment of its pension obligation to the plan. The plan provides retirement and disability benefits and death benefits to plan members and beneficiaries.

The System issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report may be obtained at <http://www.ersri.org>.

Benefit provisions - The level of benefits provided to participants is established by Chapter 36-10 of the General Laws, which is subject to amendment by the General Assembly. Member benefit provisions vary based on service credits accumulated at dates specified in various amendments to the General Laws outlining minimum retirement age, benefit accrual rates and maximum benefit provisions. In general, members accumulate service credits for each year of service subject to maximum benefit accruals of 80% or 75%. For those hired after June 30, 2012, the benefit accrual rate is 1% per year with a maximum benefit accrual of 40%. Members eligible to retire at September 30, 2009 may retire with 10 years of service at age 60 or after 28 years of service at any age. The retirement eligibility age increases proportionately for other members reflecting years of service and other factors until it aligns with the Social Security Normal Retirement Age, which applies to any member with less than 5 years of service as of July 1, 2012. Members are vested after 5 years of service.

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2019

(9) Retirement Plans- (Continued)

The plan provides for survivor's benefits for service-connected death and certain lump sum death benefits. Joint and survivor benefit provision options are available to members.

Cost of living adjustments are provided but are currently suspended until the collective plans covering state employees and teachers reach a funded status of 80%. Until the plans reach an 80% funded status, interim cost of living adjustments are provided at four-year intervals.

The plan also provides nonservice-connected disability benefits after five years of service, and service-connected disability benefits with no minimum service requirement.

Contributions – The funding policy, as set forth in the General Laws, Section 36-10-2, provides for actuarially determined periodic contributions to the plan. For fiscal 2019, Lottery employees, with less than 20 years of service as of 7/1/2012, were required to contribute 3.75% of their annual covered salary. Employees with more than 20 years of service as of 7/1/2012 were required to contribute 11% of their annual covered salary. The Lottery is required to contribute at an actuarially determined rate; the rate was 26.28% of annual covered payroll for the fiscal year ended June 30, 2019. The Lottery contributed \$1,737,836, \$1,320,896 and \$1,314,116 for the fiscal years ended June 30, 2019, 2018 and 2017, respectively, equal to 100% of the required contributions for each year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2019, the Lottery reported a liability of \$17,142,457 for its proportionate share of the net pension liability related to its participation in ERS. The net pension liability was measured as of June 30, 2018, the measurement date, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017, rolled forward to the June 30, 2018 measurement date. The Lottery's proportion of the net pension liability was based on its share of contributions to the ERS for fiscal year 2018 relative to the total contributions of all participating employers for that fiscal year. At the June 30, 2018 measurement date, the Lottery's proportion was 0.76161477%.

For the year ended June 30, 2019, the Lottery recognized pension expense of \$1,630,317. At June 30, 2019, the Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2019

(9) Retirement Plans - (Continued)

Deferred Outflows of Resources

Changes in assumptions	\$	1,101,214
Difference between expected and actual experience		114,404
Net difference between projected and actual investment earnings		178,912
Changes in proportion and differences between employer contributions and proportionate share of contributions		320,619
Contributions subsequent to measurement date		<u>1,737,836</u>
Total Deferred Outflows of Resources	\$	<u>3,452,985</u>

Deferred Inflows of Resources

Difference between expected and actual experience	\$	220,088
Changes in assumptions		13,107
Changes in proportion and differences between employer contributions and proportionate share of contributions		<u>225,617</u>
Total Deferred Inflows of Resources	\$	<u>458,812</u>

Contributions of \$1,737,836 are reported as deferred outflows of resources related to pensions resulting from the Lottery's contributions in fiscal year 2019 subsequent to the measurement date and will be recognized as a reduction of the net pension liability determined in the subsequent period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30:</u>	<u>Net Deferred Outflows (Inflows) of Resources:</u>
2020	\$ 578,887
2021	403,823
2022	170,060
2023	93,077
2024	10,490
Thereafter	-
	<u>\$ 1,256,337</u>

RHODE ISLAND LOTTERY

Notes to Financial Statements
Year Ended June 30, 2019

(9) Retirement Plans - (Continued)

Actuarial Assumptions

The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.25% to 6.25%
Investment rate of return	7.00%

Mortality rates were based on the RP-2014 combined healthy mortality tables for males with blue collar adjustments projected with Scale Ultimate MP16 and RP-2014 combined healthy mortality tables for females with Scale Ultimate MP16.

The actuarial assumptions used in the June 30, 2017 valuation rolled forward to June 30, 2018 and the calculation of the total pension liability at June 30, 2018 were consistent with the results of an actuarial experience investigation study performed as of June 30, 2016.

The long-term expected rate of return best-estimate on pension plan investments was determined by the actuary using a building-block method. The actuary started by calculating best-estimate future expected real rates of return (expected returns net of pension plan investment expense and inflation) for each major asset class, based on a collective summary of capital market expectations from 34 sources. The June 30, 2018 expected arithmetic returns over the long-term (20 years) by asset class are summarized in the following table:

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2019

(9) Retirement Plans - (Continued)

<u>Type of Investment</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
GROWTH		
Global Equity:		
U.S. Equity	20.80%	6.43%
International Developed	14.40%	6.72%
International Emerging Markets	4.80%	8.90%
Private Growth:		
Private Equity	11.30%	9.08%
Non-Core RE	2.20%	5.03%
Opportunistic Private Credit	1.50%	9.08%
INCOME		
High Yield Infrastructure	1.00%	3.81%
REITS	1.00%	5.03%
Liquid Credit	2.80%	3.81%
Private Credit	3.20%	3.81%
STABILITY		
Crisis Protection Class:		
Treasury Duration	4.00%	0.61%
Systematic Trend	4.00%	4.00%
Inflation Protection:		
Core Real Estate	3.60%	5.03%
Private Infrastructure	2.40%	5.61%
TIPs	1.00%	1.75%
Natural Resources	1.00%	3.81%
Volatility Protection:		
IG Fixed Income	11.50%	2.14%
Absolute Return	6.50%	4.00%
Cash	3.00%	0.61%
	<u>100.00%</u>	

These return assumptions are then weighted by the target asset allocation percentage, factoring in correlation effects, to develop the overall long-term expected rate of return best-estimate on an arithmetic basis.

Discount rate

The discount rate used to measure the total pension liability was 7.0 percent. 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 that contributions from the employers will be made at statutorily required rates, 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.

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2019

(9) *Retirement Plans* - (Continued)

Sensitivity of the net pension liability (asset) to changes in the discount rate

Net Pension Liability		
1% Decrease (6.0% Discount Rate)	(7.0% Discount Rate)	1% Increase (8.0% Discount Rate)
\$ 21,404,540	\$ 17,142,457	\$ 13,967,894

Pension Plan Fiduciary Net Position:

As noted earlier, ERS issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report may be obtained at <http://www.ersri.org>. The report contains detailed information about the pension plan's fiduciary net position.

Defined Contribution Plan:

Plan Description – Certain employees participating in the defined benefit plan (those with less than 20 years of service as of 7/1/2012), as described above, also participate in a defined contribution plan of the Employees' Retirement System as authorized by General Law Chapter 36-10.3. The defined contribution plan is established under IRS section 401(a) and is administered by TIAA-CREF. The Retirement Board is the plan administrator and plan trustee. The Employees may choose among various investment options available to plan participants. The State Investment Commission is responsible for implementing the investment policy of the plan and selecting the investment options available to members.

Plan contributions – Certain employees (those with less than 20 years of service as of 7/1/2012) contribute 5% of their annual covered salary and employers contribute at the following percentages of annual covered salary for these employees based on their years of service as of July 1, 2012:

Years of Service As of July 1, 2012	Employer Contribution Rate
15-20 Years	1.5%
10-15 Years	1.25%
0-10 Years	1.00%

Employee contributions are immediately vested while employer contributions are vested after three years of contributory service. Contributions required under the plan by both the employee and employer are established by the General Laws of the State of Rhode Island, which are subject to amendment by the General Assembly.

The Lottery contributed and recognized as pension expense \$66,982 for the fiscal year ended June 30, 2019, equal to 100% of the required contributions for the fiscal year.

Plan vesting and contribution forfeiture provisions – The total amount contributed by the member, including associated investment gains and losses, shall immediately vest in the member's account and is non-forfeitable. The total amount contributed by the employer, including associated investment gains and losses, vests with the member and is non-forfeitable upon completion of three (3) years of contributory service. Non-vested employer contributions are forfeited upon termination of employment. Such forfeitures can be used by employers to offset future remittances to the plan.

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2019

(9) Retirement Plans - (Continued)

Retirement benefits – Benefits may be paid to a member after severance from employment, death, plan termination, or upon a deemed severance from employment for participants performing qualified military service. At a minimum, retirement benefits must begin no later than April 1 of the calendar year following the year in which the member attains age 70½ or terminates employment, if later.

The System issues a publicly available financial report that includes financial statements and required supplementary information for plans administered by the system. The report may be obtained at <http://www.ersri.org>.

(10) Postemployment Healthcare

Plan description - Employees of the Lottery participate in a cost-sharing multiple-employer defined benefit other post-employment benefits (OPEB) plan included within the Rhode Island State Employees' and Electing Teachers OPEB System (the "System"). The Lottery participates in the State Employees plan within the System.

Under a cost sharing plan, OPEB obligations for employees of all employers are pooled and plan assets are available to pay the benefits of the employees of any participating employer providing OPEB benefits through the plan, regardless of the status of the employers' payment of its OPEB obligation to the plan. The plan provides health care benefits to plan members.

The System is administered by the OPEB Board and was authorized, created, and established under Chapter 36-12.1 of the RI General Laws. The Board was established under Chapter 36-12.1 as an independent board to hold and administer, in trust, the funds of the OPEB system. The four members of the OPEB Board are: the State Controller, the State Budget Officer, the State Personnel Administrator and the General Treasurer, or their designees.

The System issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report may be obtained at <http://www.oag.ri.gov/reports.html>.

Membership and Benefit provisions – The plans within the System generally provide healthcare coverage to pre-Medicare eligible retirees and health reimbursement account contributions or Medicare supplement coverage for members who are Medicare eligible. Members may purchase coverage for spouses and dependents. Dental and vision coverage may be purchased by these groups with no state subsidy.

Members of the System must meet the eligibility and services requirements set forth in the RI General Laws or other governing documents. RIGL Sections 16-17.1-1 and 2, 36-10-2, 36-12.1, 36-12-2.2 and 36-12-4 govern the provisions of the System, and they may be amended in the future by action of the General Assembly.

Contributions – The funding policy, as set forth in the General Laws and which may be amended at any time, provides for actuarially determined periodic contributions to the plans. The Lottery is required to contribute at an actuarially determined rate; the rate was 5.98% of annual covered payroll for the fiscal year ended June 30, 2019. The Lottery contributed \$400,960, \$317,442 and \$309,600 for the fiscal years ended June 30, 2019, 2018 and 2017, respectively, equal to 100% of the required contributions for each year.

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2019

(10) Postemployment Healthcare Plan- (Continued)

Active employees do not make contributions to the plan. Retired member contributions consist of the required retiree share of coverage based on the time of retirement and years of service.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2019, the Lottery reported a liability of \$3,876,354 for its proportionate share of the net OPEB liability related to its participation in the System. The net OPEB liability was measured as of June 30, 2018, the measurement date, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017 rolled forward to the June 30, 2018 measurement date. The Lottery's proportion of the net OPEB liability was based on its share of contributions to the System for fiscal year 2018 relative to the total contributions of all participating employers for that fiscal year. At the June 30, 2018 measurement date, the Lottery's proportion was 0.76106927%.

For the year ended June 30, 2019, the Lottery recognized OPEB expense of \$302,736. At June 30, 2019, the Lottery reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Deferred Outflows of Resources

Changes in assumptions	\$	199,938
Changes in proportion and differences between employer contributions and proportionate share of contributions		77,879
Contributions subsequent to measurement date		<u>400,960</u>
Total Deferred Outflows of Resources	\$	<u>678,777</u>

Deferred Inflows of Resources

Difference between expected and actual experience	\$	195,614
Changes in proportion and differences between employer contributions and proportionate share of contributions		-
Net difference between projected and actual investment earnings		<u>71,670</u>
Total Deferred Inflows of Resources	\$	<u>267,284</u>

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2019

(10) Postemployment Healthcare Plan- (Continued)

Contributions of \$400,960 are reported as deferred outflows of resources related to OPEB expense resulting from the Lottery's contributions in fiscal year 2019 subsequent to the measurement date and will be recognized as a reduction of the net OPEB liability in the subsequent period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year ended June 30:</u>	<u>Net Deferred Outflows (Inflows) of Resources:</u>
2020	\$ (7,222)
2021	(7,222)
2022	(7,222)
2023	4,891
2024	13,723
Thereafter	13,585
	<u>\$ 10,533</u>

Actuarial Assumptions

The total OPEB liability was determined using the following significant actuarial assumptions:

Inflation	2.75%
Salary Increases	3.00% to 6.00%
Investment Rate of Return	5.00%
Health Care Cost Trend Rate	8.25% in fiscal 2019 decreasing annually to 3.5% in fiscal year 2031 and later

The long-term expected rate of return best-estimate on OPEB plan investments was determined by the actuary using a building-block method. The actuary started by calculating best-estimate future expected real rates of return (expected returns net of OPEB plan investment expense and inflation) for each major asset class, based on a collective summary of capital market expectations from 34 nationally recognized investment consulting firms. The June 30, 2018 expected arithmetic returns over the long-term (20 years) by asset class are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Target Asset Allocation</u>	<u>Long-Term Expected Arithmetic Real Rate of Return</u>
Domestic Equity	65%	6.25%
Fixed Income	35%	1.39%

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2019

(10) Postemployment Healthcare Plan- (Continued)

These return assumptions are then weighted by the target asset allocation percentage, factoring in correlation effects, to develop the overall long-term expected rate of return best-estimate on an arithmetic basis.

Discount rate

The discount rate used to measure the total OPEB liability was 5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members, if any, will be made at the current contribution rate and that contributions from the employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the OPEB 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the net OPEB liability to changes in the discount rate

The following presents the net OPEB liability calculated using the discount rate of 5 percent as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate.

Net OPEB Liability		
Discount Rate Sensitivity		
1% Decrease		1% Increase
<u>(4.0% Discount Rate)</u>	<u>(5.0% Discount Rate)</u>	<u>(6.0% Discount Rate)</u>
\$ 4,552,182	\$ 3,876,354	\$ 3,314,265

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rate

The following table presents the net OPEB liability calculated using the healthcare cost trend rate of 8.25 percent and gradually decreasing to an ultimate rate of 3.5%, as well as what the employers' net OPEB liability would be if it were calculated using a trend rate that is 1-percentage point lower or 1-percentage point higher than the current rate (expressed in thousands).

Net OPEB Liability		
Health Care Trend Rate Sensitivity		
1% Lower	Baseline	1% Higher
\$ 3,194,789	\$ 3,876,354	\$ 4,726,677

OPEB Plan Fiduciary Net Position:

The System issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report may be obtained at <http://www.oag.ri.gov/reports.html>. The report contains detailed information about the OPEB plan's fiduciary net position.

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2019

(11) Deferred Compensation

Employees of the Lottery may participate in a deferred compensation plan offered by the State. Required disclosures are reported in the State's CAFR.

(12) Commitments

(a) Gaming Systems Provider – International Game Technology (IGT)

During May 2003, the Lottery entered into a 20-year master contract with its gaming systems provider granting them the right to be the exclusive provider of information technology hardware, software, and related services for all lottery games. This contract is effective from July 1, 2003 through June 30, 2023 and amends all previous agreements between the parties.

As consideration for this exclusive right, the gaming systems provider paid the Lottery \$12.5 million. In the event that the contract term is not fulfilled, the Lottery will be obligated to refund a pro-rata share of this amount to the gaming systems provider (\$2.5 million at June 30, 2019).

The contract mandates commission percentages as detailed in the following chart.

Commission Percentages	
On-Line and Instant Tickets	
Total Lottery Sales in the Year	Percent Thereof
\$0 - \$275 Million	5.00%
Over \$275 Million - \$400 Million	1.00%
Over \$400 Million	5.00%
Video Lottery Central System	
Total Net Terminal Income for the Year	Percent Thereof
\$0 - \$500 Million	2.50%
Over \$500 Million - \$1 Billion	1.00%
Over \$1 Billion	2.50%

During August 2018, the Lottery contracted with IGT to provide, along with its subcontractor, American Wagering, Inc., D/B/A William Hill US (William Hill), a proprietary sports betting solution for all sports betting at the Twin River Casino Hotel and the Tiverton Casino Hotel facilities. The initial term of the software license is five years from launch date, and upon mutual agreement of the parties, there are two successive five year renewal options. In exchange, IGT is allocated its revenue share in accordance with RI General Laws 42-61.2. In the event of a loss of sports wagering revenue in a quarterly period, IGT will cover the State's share of said loss interest free until a subsequent invoicing period is sufficient to cover said prior period loss.

During July 2019, the Lottery executed the first amendment to the Sports Betting Agreement authorizing IGT to supply the equipment, software, and services for online sports wagering using mobile devices. This is in accordance with authorized sports wagering legislation enacted in June 2019.

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2019

(12) Commitments- (Continued)

The Lottery also leases to the vendor a portion of its headquarters to house the computer hardware and office space necessary for the operation of the Lottery's games. The original term of the lease was for five (5) years, commencing October 19, 2012 and the square footage leased is 5,101 square feet. The annual lease amount for the first year approximated \$117,000 and the four (4) remaining years will increase by four percent (4%) per annum, effective October 19th. The tenant exercised the one, four (4) year term renewal option for the office space. The base rate for the renewal options is an increase of four percent (4%) per annum unless a mutually acceptable rate is negotiated.

On July 1, 2017, the Lottery entered into a seventh amendment to the Master Contract with IGT. Under this agreement, IGT shall deploy premium IGT video lottery terminals based on a premium tier and rate table, and receive \$500,000 per marketing year for each level of promotional points up to 12.5% of facility net terminal income for the prior marketing year plus \$750,000; and also up to 15% of facility net terminal income for the prior marketing year plus \$750,000. The maximum amount of promotional points legislatively authorized under this program is 20% of facility net terminal income for the prior marketing year plus \$750,000, subject to approval from the Lottery Director. The payments are prorated based on the number of days the premium video lottery terminals are deployed during the fiscal year. In return, IGT waves all rights, remedies, claims and cause of action against the Division in connection with the promotional points program for the facilities redeemed up to 15% of the facility prior year net terminal income plus \$750,000. During fiscal year 2019, IGT waived all rights, claims and cause action for promotional points for the facilities redeemed up to 20% of the facility prior year net terminal income plus \$750,000 for Twin River- Lincoln. For fiscal year 2019, the first marketing year in which the Division commenced operating video lottery terminals at Twin River – Tiverton, the amount of promotional points program was the sum of 50% of the Newport Grand and 50% of the Twin River –Lincoln net terminal income for the prior marketing year. For fiscal year 2020, each facility's allowable promotional points are 20% of prior year net terminal income plus \$750,000.

(b) Video Lottery Facilities

Both licensed facilities are owned and operated by Twin River Worldwide Holdings, Inc.

Twin River - Lincoln

On July 18, 2005, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with the owners of Twin River - Lincoln, to manage one of the State's licensed video lottery facilities. The contract entitles the owners to compensation ranging from 26% to 28.85% of video lottery net terminal income at the facility. Five-year extension terms commenced on July 18, 2010 and July 18, 2015. Certain extensions are contingent on the owners' compliance with full-time employment mandates.

The Master Contract has been amended in recent years to reflect the statutory authorization of a promotional points program at Twin River - Lincoln. In fiscal 2019, Twin River - Lincoln was authorized and issued approximately \$71.0 million in promotional points to facility patrons.

The Master Contract has also been amended to reflect the statutory requirement that the Lottery reimburse the owner for certain allowable marketing expenses. The Lottery is currently obligated to reimburse the owner for allowable marketing expenses as follows:

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2019

(12) Commitments- (Continued)

<u>Marketing Expense Level</u>	<u>Lottery Reimbursement Percentage</u>
\$1 up to \$4,000,000	0%
\$4,000,001 up to \$10,000,000	State Share of NTI
\$10,000,001 up to \$14,000,000	0%
\$14,000,001 up to \$17,000,000	State Share of NTI

Recent statute and contract amendments require the Lottery to reimburse the owners for allowable marketing expenses incurred between \$4 million and \$10 million and between \$14 million and \$17 million at the same percentage as the Lottery's share of net terminal income for the fiscal year (60.89% for 2019). The Lottery accrued to reimburse the owner for \$5,480,100 in marketing expenses for fiscal 2019.

On May 2, 2017, the Lottery entered into a fifth amendment to the Master Contract authorizing the owner to construct and operate a hotel at Twin River – Lincoln which opened in October 2018.

On May 3, 2017, the Lottery entered into a sixth amendment to the Master Contract with the owner providing the option to extend the agreement for two additional five (5) year terms commencing on July 18, 2020 and July 17, 2025 and continuing until July 17, 2030. Certain extensions are contingent on the owners' compliance with full-time employment mandates. The agreement also effectuates the legislation authorizing and directing the Lottery to operate casino gaming at Twin River - Tiverton and to implement statutory changes regarding the allocation of video lottery net terminal income and net table game revenue at Twin River – Lincoln and Twin River – Tiverton.

On February 6, 2018, the Lottery entered into the seventh amendment to the Master Contract with the owners requiring make whole provisions pursuant for promotional points redeemed. In accordance with the provisions of section 2.1 of the IGT seventh amendment to its Master Contract, Twin River – Lincoln facility and Twin River – Tiverton shall make whole, through the Division, for IGT premium game video lottery terminals at each level of promotional points up to 12.5% and 15% of net terminal income of each facility based on that percentage specified of net terminal income for the prior state fiscal year plus \$750,000; or for Tiverton, during its first year of operation, based on the sum of 50% of the Newport Grand and 50% of the Twin River – Lincoln net terminal income for the prior fiscal year. During fiscal year 2019, IGT waived all rights, claims and cause action for promotional points for the facilities redeemed up to 20% of the facility prior year net terminal income plus \$750,000 for Twin River - Lincoln. For fiscal year 2020, each facility's allowable promotional points are 20% of prior year net terminal income plus \$750,000.

Twin River – Tiverton

On August 28, 2018, Newport Grand ceased operations and the State's license was transferred to Twin River – Tiverton.

On November 23, 2005, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with Newport Grand to continue to manage one of the State's licensed video lottery facilities. Five-year contract extensions commenced on November 23, 2010 and November 23, 2015. There were requirements for Newport Grand to comply with full-time employment mandates specified in the 2010 law. The contract, as amended, entitled Newport Grand to compensation equal in percentage of net terminal income to that of Twin River - Lincoln. In addition, Newport Grand was entitled to an increased percentage of net terminal income of 1.9% to be used for approved marketing expenses at Newport Grand, which was to sunset upon the opening of Twin River - Tiverton.

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2019

(12) Commitments- (Continued)

The Master Contract was amended to reflect the statutory authorization of a promotional points program at Newport Grand. For fiscal year 2019, the first marketing year in which the Division commenced operating video lottery terminals at Twin River – Tiverton, the amount of promotional points program was the sum of 50% of the Newport Grand and 50% of the Twin River - Lincoln net terminal income for the prior marketing year. For fiscal year 2020, each facility's allowable promotional points are 20% of prior year net terminal income plus \$750,000.

In fiscal year 2019, Twin River – Tiverton was authorized and issued approximately \$14.9 million in promotional points to facility patrons (Newport Grand was authorized and issued approximately \$.9 million).

The Master Contract has also been amended to reflect the statutory requirement that the Lottery reimburse Twin River - Tiverton for certain allowable marketing expenses. Marketing reimbursements for fiscal year 2019 were prorated based on the number of days each facility was operating during the fiscal year. The Lottery was obligated to reimburse Newport Grand/Twin River - Tiverton for allowable marketing expenses as follows:

<u>Marketing Expense Level</u>	<u>Lottery Reimbursement Percentage</u>
\$1 up to \$560,000	0%
\$560,001 up to \$1,400,000	State Share of NTI

The Lottery is required to reimburse Newport Grand/Twin River - Tiverton for allowable marketing expenses incurred between \$560,000 and \$1.4 million at the same percentage as the Lottery's share of net terminal income for the fiscal year 2019 (61.46% for Newport Grand, and 61.07% for Tiverton Casino Hotel). The Lottery accrued to reimburse Twin River - Tiverton for \$430,067 in marketing expenses for fiscal 2019 (reimbursements for Newport Grand totaled \$8,548 for fiscal 2019).

(13) Contingencies

- (a) The Lottery's master contracts with its video lottery facilities contain revenue protection provisions in the event that existing video lottery facilities incur revenue losses caused by new gaming ventures within the State.
- (b) The Lottery's gaming operations currently compete with casinos in nearby Connecticut and Massachusetts. More recently, a third casino opened (June 2019) in Everett Massachusetts which is likely the cause of the recent decline in the Lottery's net revenue from video lottery terminals and tables games. In addition, both neighboring States may consider additional casino expansion likely to increase gaming competition in New England. The Lottery and the State continually monitor the risk to gaming operations resulting from competition in nearby states.
- (c) The Narragansett Indian Tribe filed a complaint against the State of Rhode Island in the Rhode Island Superior Court on or about September 28, 2011, challenging, inter alia, the constitutionality of the Rhode Island Casino Gaming Act ("Act") on the grounds that it would not be "state-operated" and the Act "delegates unconstitutional authority to a private corporation". On or about June 29, 2012, the Rhode Island Superior Court found that the Narragansett Indian Tribe had not sustained their burden of proof beyond a reasonable doubt that the Act is facially unconstitutional. The Narragansett Indian Tribe filed a notice of appeal of that decision with the Rhode Island Supreme Court. On or about March 4, 2015, the Rhode Island Supreme Court issued a decision upholding the Superior Court's decision.

RHODE ISLAND LOTTERY

Notes to Financial Statements

Year Ended June 30, 2019

(13) Contingencies- (Continued)

The remaining issue in the case relating to whether the State “operates” the Twin River – Lincoln and Twin River – Tiverton facilities remains pending in the Superior Court.

- (d) A plaintiff has filed suit against the Division of Lottery and Department of Administration challenging the constitutionality of sports betting in Rhode Island. The complaint asserts that the conduct of State operated sports betting in Tiverton and Lincoln violates the express constitutional requirement of voter approval and must be declared unconstitutional and enjoined until and unless the voters of Rhode Island approve sports gambling at duly authorized statewide and local elections. On September 9, 2019, the suit was dismissed by the Rhode Island Superior Court due to a lack of standing by the plaintiff. Plaintiff is seeking to refile an amended complaint and the matter is scheduled for hearing in Superior Court.
- (e) In the event of default on an insurance annuity contract for a Rhode Island winner of the Lucky for Life® jackpot prize award, the Lottery may be contingently liable for any remaining prize amounts due the winner.

(14) Risk Management

The Lottery is exposed to various types of risk related to its operations. These risks can result in losses incurred from property damage or destruction, inability to operate gaming activities and worker compensation claims. The Lottery manages these risks through the purchase of commercial insurance. During fiscal 2019, the Lottery maintained its amount of purchased insurance coverage. Claims and settlements incurred for fiscal years 2019, 2018 and 2017 have not exceeded the Lottery’s insurance coverage.

The Lottery participates in the health insurance program for all State employees.

The Lottery also manages a variety of operational risks which could impact the continuity of business operations. These include the risk of cyber-attacks, property damages, or employee strikes which could adversely impact Lottery operations and have an effect on the State’s share of net revenues. To mitigate these risks, Lottery contractors and facility operators procure business interruption insurance, cyber liability insurance, and other property insurance, in conjunction with managing employment issues in a manner that safeguards the continuity of the Lottery’s business operations.

(15) Subsequent Events

Online (mobile) sports betting was launched in September 2019. Players must create and register an account prior to placing wagers, via the internet or smart phone, on sporting events, combinations of sporting events and certain other sporting events as authorized by the Lottery Division. Wagers are only allowed for patrons within the geographical limits of the State.

Required
Supplementary
Information

RHODE ISLAND LOTTERY
Schedule of the Lottery's Proportionate Share of the Net Pension Liability
Employees' Retirement System Plan

Year Ended	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Measurement Date	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Lottery's proportion of the net pension liability	0.76161477%	0.74815308%	0.76619002%	0.75882900%	0.74724193%
Lottery's proportionate share of the net pension liability	\$ 17,142,457	\$ 16,869,023	\$ 16,260,567	\$15,073,593	\$13,315,141
Lottery's covered payroll (at measurement date)	\$ 5,311,202	\$ 5,185,935	\$ 5,155,796	\$5,070,849	\$4,891,380
Lottery's proportionate share of the net pension liability as a percentage of its covered payroll	322.76%	325.28%	315.38%	297.26%	272.22%
Plan fiduciary net position as a percentage of the total pension liability	52.53%	51.83%	51.88%	55.00%	58.60%

Notes:

- 1.) *The amounts presented for each fiscal year were determined as of the June 30 measurement date prior to the fiscal year-end.*
- 2.) *Schedule is intended to show information for 10 years - additional years will be displayed as they become available.*
- 3.) *See Notes to Required Supplementary Information.*

RHODE ISLAND LOTTERY
Schedule of the Lottery's Contributions
Employees' Retirement System Plan

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily determined contribution	\$ 1,737,836	\$ 1,320,896	\$ 1,314,116	\$1,219,209	\$1,183,029
Contributions in relation to the statutorily determined contribution	1,737,836	1,320,896	1,314,116	1,219,209	1,183,029
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Lottery's covered payroll	\$ 6,612,770	\$ 5,311,202	\$ 5,185,935	\$5,155,796	\$5,070,849
Contributions as a percentage of covered payroll	26.28%	24.87%	25.34%	23.65%	23.33%

Notes:

1.) Employers participating in the State Employee's Retirement System are required by RI General Laws, Section 36-10-2, to contribute an actuarially determined contribution rate each year.

2.) Schedule is intended to show information for 10 years - additional years will be displayed as they become available.

3.) See Notes to Required Supplementary Information.

RHODE ISLAND LOTTERY
Schedule of the Lottery's Proportionate Share of the Net OPEB Liability
State Employees' OPEB Plan

Year Ended	June 30, 2019	June 30, 2018
Measurement Date	June 30, 2018	June 30, 2017
Lottery's proportion of the net OPEB liability	0.76106927%	0.74378532%
Lottery's proportionate share of the net OPEB liability	\$ 3,876,354	\$ 3,863,547
Lottery's covered payroll (at measurement date)	\$ 5,308,395	\$ 5,185,930
Lottery's proportionate share of the net OPEB liability as a percentage of its covered payroll	73.02%	74.50%
Plan fiduciary net position as a percentage of the total OPEB liability	26.25%	22.38%

Notes:

- 1.) The amounts presented for each fiscal year were determined as of June 30 measurement date prior to the fiscal year-end.***
- 2.) Schedule is intended to show information for 10 years - additional years will be displayed as they become available.***
- 3.) See Notes to Required Supplementary Information.***

RHODE ISLAND LOTTERY
Schedule of the Lottery's Contributions
State Employees' OPEB Plan

	<u>2019</u>	<u>2018</u>
Statutorily determined contribution	\$ 400,960	\$ 317,442
Contributions in relation to the statutorily determined contribution	400,960	317,442
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Lottery's covered payroll	\$ 6,705,017	\$ 5,308,395
Contributions as a percentage of covered payroll	5.98%	5.98%

Notes:

- 1.) Employers participating in the State Employee's Retirement System are required by RI General Laws, Section 36-10-2, to contribute an actuarially determined contribution rate each year.***
- 2.) Schedule is intended to show information for 10 years - additional years will be displayed as they become available.***
- 3.) See Notes to Required Supplementary Information.***

RHODE ISLAND LOTTERY
Notes to Required Supplementary Information
Year Ended June 30, 2019

Pension – Required Supplementary Information:

- **Schedule of the Lottery’s Proportionate Share of the Net Pension Liability – Employees’ Retirement System Plan**
- **Schedule of the Lottery’s Contributions – Employees’ Retirement System Plan**

The schedules are intended to present ten years of data. Additional years of data will be presented as they become available.

1. Actuarial methods and assumptions used to calculate the net pension liability of the participating employers

The actuarial methods and assumptions used to calculate the net pension liability of the participating employers are described in Note 9 to the financial statements. The following information is presented about factors that significantly affect trends in the amounts reported between years.

As part of the 2017 Actuarial Experience Investigation Study for the six-year period ending June 30, 2016 as approved by the System Board on May 15, 2017, certain assumptions were modified and reflected in the determination of the net pension liability at the June 30, 2017 measurement date. The following summarizes the more significant changes in assumptions:

June 30, 2018 measurement date:

There were no changes in actuarial methods or assumptions reflected in the calculation of the net pension liability (asset) of the plan as of the June 30, 2018 measurement date compared to the June 30, 2017 measurement date.

June 30, 2017 measurement date:

- Decreased the general inflation assumption from 2.75% to 2.50%;
- Decreased the nominal investment return assumption from 7.50% to 7.00%;
- Decreased the general wage growth assumption from 3.25% to 3.00%;
- Decreased salary increase assumptions; and
- Updated the post-retirement mortality tables to variants of the RP-2014 table. For the improvement scale, update to the ultimate rates of the MP-2016 projection scale.

June 30, 2016 measurement date:

There were no changes in actuarial methods or assumptions reflected in the calculation of the net pension liability of the plans as of the June 30, 2016 measurement date compared to the June 30, 2015 measurement date.

June 30, 2015 measurement date:

There were no changes in actuarial methods or assumptions reflected in the calculation of the net pension liability of the plans as of the June 30, 2015 measurement date compared to the June 30, 2014 measurement date.

RHODE ISLAND LOTTERY
Notes to Required Supplementary Information
Year Ended June 30, 2019

1. Actuarial methods and assumptions used to calculate the net pension liability (asset) of the participating employers (continued)

Benefit changes are reflected in the calculation of the net pension liability at the June 30, 2015 measurement date. The following is a summary of those benefit changes that resulted from the settlement of the pension litigation and the subsequent enactment of those settlement provisions by the General Assembly.

- Employees with more than 20 years of service at July 1, 2012 will increase their employee contribution rates to 11% for state employees and municipal general employees will contribute 8.25% (9.25% for units with a COLA provision) and participate solely in the defined benefit plan going forward – service credit accruals will increase from 1% to 2% per year.
- Members are eligible to retire upon the attainment of: age 65 with 30 years of service, 64 with 31 years of service, 63 with 32 years of service, or 62 with 33 years of service. Members may retire earlier if their RIRSA date is earlier or are eligible under a transition rule.
- Employees with more than 10 but less than 20 years of service at July 1, 2012 will receive an increased employer contribution to the defined contribution plan. Also, members who earn less than \$35,000 per year will not be required to pay the administrative fees to the defined contribution plan.
- Members who retired from a COLA eligible plan before July 1, 2012 will received a one-time cost of living adjustment of 2% of the first \$25,000 paid as soon as administratively possible.
- Retirees as of June 30, 2015 will receive two \$500 stipends; the interim cost of living increases will occur at 4 year rather than 5-year intervals.
- The COLA formula was adjusted to: 50% of the COLA is calculated by taking the previous 5-year average investment return, less 5.5% (5yr Return - 5.5%, with a max of 4%) and 50% calculated using previous year's CPI-U (max of 3%) for a total max COLA of 3.5%. This COLA is calculated on the first \$25,855, effective 01/01/16, and indexed as of that date as well. (The indexing formula is run annually regardless of funding level each year.)
- Minor adjustments were made to the actuarial reduction for employees choosing to retire early.

2. Actuarially determined contributions

Actuarially determined contributions are calculated as of June 30, three years prior to the fiscal year in which the contributions are reported. For example, the contribution rate for fiscal 2019 for the plan was based on a valuation performed as of June 30, 2016.

RHODE ISLAND LOTTERY
Notes to Required Supplementary Information
Year Ended June 30, 2019

Other Postemployment Benefits (OPEB) Plan – Required Supplementary Information:

- **Schedule of the Lottery's Proportionate Share of the Net OPEB Liability – State Employees' OPEB Plan**
- **Schedule of the Lottery's Contributions – State Employees' OPEB Plan**

1. Actuarial assumptions and methods used to calculate the net OPEB liability of the participating employers

The actuarial methods and assumptions used to calculate the net OPEB liability of the participating employers are described in Note 10 to the financial statements. The following information is presented about factors that significantly affect trends in the amounts reported between years.

June 30, 2018 Measurement date:

There were no changes in actuarial methods or assumptions reflected in the calculation of the net OPEB liability of the plan as of the June 30, 2018 measurement date compared to the June 30, 2017 measurement date.

June 30, 2017 Measurement Date:

Certain actuarial assumptions for State Employees were updated to match the assumptions used for State Employees in the pension valuation for the Employees' Retirement System of Rhode Island (ERSRI) and the results of an actuarial experience investigation performed for ERSRI at June 30, 2016. Changes were made to the following assumptions:

- Merit and longevity portion of the salary increase assumption
- Rates of separation from active membership
- Rates of retirement
- Rates of disability
- The rate of wage inflation
- The mortality assumption
- The trend assumption
- Aging factors and health and inflation trends

The excise tax load on pre-65 liabilities was changed from 13.8% to 11.0%. The Patient Protection and Affordable Care Act includes an excise tax on high cost health plans beginning in 2022. The excise tax is 40% of costs above a threshold. The actual actuarial assumptions used in the most recent valuations assume that the plans will be subject to the excise tax in 2022.

2. Actuarially determined contributions

The annual required contributions for fiscal year 2019 were determined based on the June 30, 2015 valuation of the State Employees' OPEB Plan.

Supplementary Information

Schedule 1 – Operating Revenue and Cost of Gaming Operations

RHODE ISLAND LOTTERY
Operating Revenue and Cost of Gaming Operations
Year Ended June 30, 2019

Schedule 1

	Revenue ⁽¹⁾	Commissions	Prize Awards Expense	Unclaimed Prize Recovery	Cost of Tickets	Marketing/ Advertising	Incentive Programs	Cost of Gaming Operations	Gross Profit
Games reported -- gross revenue									
On-line Games									
Keno	\$ 79,843,410	\$ 10,379,418	\$ 52,360,797	\$ (289,747)	\$ -	\$ 646,840	\$ -	\$ 63,097,308	\$ 16,746,102
Bingo	1,214,353	158,433	802,391	(4,396)	-	1,373	-	957,801	256,552
PowerBall®	27,218,295	3,535,548	13,614,308	(411,463)	-	537,744	-	17,276,137	9,942,158
Daily Numbers	22,988,120	2,989,372	11,741,314	(240,820)	-	29,019	-	14,518,885	8,469,235
Mega Millions®	20,229,951	2,630,814	10,412,247	(146,343)	-	464,208	-	13,360,926	6,869,025
Wild Money	3,898,948	506,567	2,144,757	(46,650)	-	18,548	-	2,623,222	1,275,726
Lucky for Life®	4,958,714	644,153	3,139,262	(145,631)	-	167,886	-	3,805,670	1,153,044
Other Sales	9,307	2,085	4,559	-	-	70	-	6,714	2,593
	160,361,098	20,846,390	94,219,635	(1,285,050)	-	1,865,688	-	115,646,663	44,714,435
Instant Tickets	102,914,666	10,978,572	71,047,693	(1,765,010)	925,570	948,939	-	82,135,764	20,778,902
Sports Book	127,587,809	3,104,551	120,720,040	-	-	740,113 ⁽³⁾	-	124,564,704	3,023,105
Games reported -- revenue net of related prize awards									
Video Lottery ⁽²⁾	522,754,625	202,470,151	-	(250,482)	-	-	6,053,466	208,273,135	314,481,490
Table Games	163,442,908	137,995,985	-	-	-	-	-	137,995,985	25,446,923
Totals	<u>\$ 1,077,061,106</u>	<u>\$ 375,395,649</u>	<u>\$ 285,987,368</u>	<u>\$ (3,300,542)</u>	<u>\$ 925,570</u>	<u>\$ 3,554,740</u>	<u>\$ 6,053,466</u>	<u>\$ 668,616,251</u>	<u>\$ 408,444,855</u>
<u>Lottery games commissions - detail by game</u>									
		Video	Table Games	Sports Book					
Facilities	\$	145,495,587	\$ 136,588,099	\$ 1,007,701					
Technology Providers		35,964,087	-	1,896,850					
Central Communications Provider		12,727,546	-	-					
City/Town		7,548,735	1,407,886	200,000					
Narragansett Indian Tribe		734,196	-	-					
Total	\$	<u>202,470,151</u>	<u>\$ 137,995,985</u>	<u>\$ 3,104,551</u>					

(1) See note 2 (c) for details of revenue accounting policy.

(2) See note 2 (c) (3) for detail of gross video lottery terminal activity.

(3) Marketing expenses specifically for Sports Book are allocated as part of the overall allocation of revenue to the State and casino facilities.

Statistical Section

Statistical Section

This part of the Lottery's comprehensive annual financial report presents detailed information as to the context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the financial health of the State of Rhode Island, the Lottery and the lottery industry.

<u>Contents</u>	<u>Page</u>
Lottery Statistics – Rhode Island These schedules contain trend information to help the reader understand how the Lottery's financial performance and well-being have changed over time.	74
Rhode Island Demographics These schedules offer demographic and economic indicators to help give the reader a better understanding of the Lottery's and the State of Rhode Island's environment.	84
Lottery Statistics – National These schedules contain financial information to help the reader understand the Lottery's performance compared to the other lottery jurisdictions within the United States of America.	87

Lottery Statistics – Rhode Island

RHODE ISLAND LOTTERY

Principal Revenue Sources

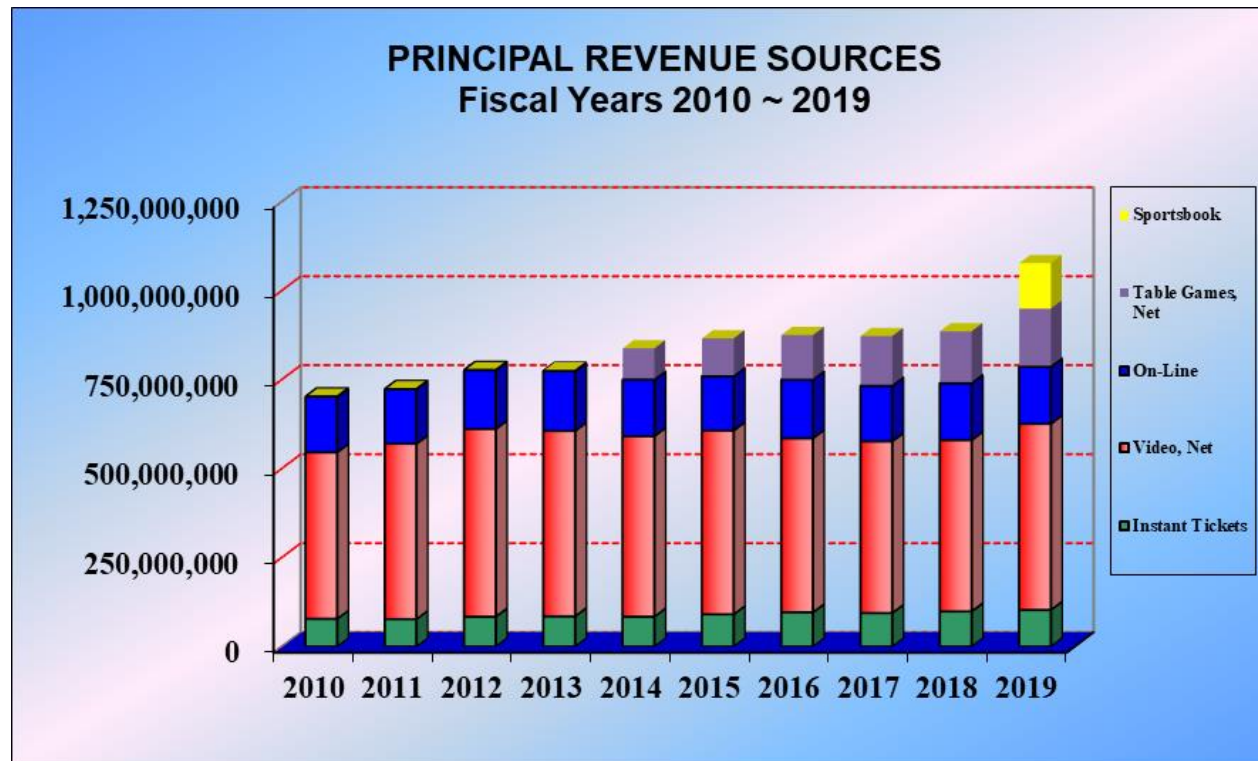
Fiscal Years 2010 through 2019

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Operating Revenue										
Games reported - gross revenue										
<i>On-line</i>										
Keno	\$ 77,708,084	\$ 81,061,025	\$ 82,251,847	\$ 78,964,759	\$ 78,203,765	\$ 80,465,002	\$ 83,659,591	\$ 82,984,608	\$ 82,435,628	\$ 79,843,410
Bingo	-	-	-	1,381,565	1,094,274	949,606	1,029,788	972,663	1,034,438	1,214,353
PowerBall®	42,684,765	28,175,659	32,858,107	40,949,997	31,502,543	26,049,095	36,307,849	29,378,496	30,191,087	27,218,295
Monopoly Millionaires Club™	-	-	-	-	-	288,275	-	-	-	-
Daily Numbers	25,176,010	24,933,177	25,412,018	24,522,578	24,141,676	24,197,096	23,773,865	23,886,086	23,210,121	22,988,120
Mega Millions®	4,067,206	11,543,667	13,943,638	7,930,357	12,622,344	11,465,226	10,064,697	9,365,827	13,345,270	20,229,951
Wild Money	4,755,803	5,261,888	4,891,994	3,583,753	4,525,777	3,695,696	4,317,463	3,967,038	4,465,768	3,898,948
Lucky for Life	-	-	3,774,422	8,726,218	6,719,790	5,455,649	5,398,864	5,096,898	4,970,754	4,958,714
Other	-	-	-	-	-	-	-	4,475	10,391	9,307
Rhody Poker™	-	-	-	-	-	-	-	-	-	-
Raffle	2,254,980	2,399,880	2,399,940	2,301,580	-	-	-	-	-	-
Total on-line	156,646,848	153,375,296	165,531,966	168,360,807	158,810,169	152,565,645	164,552,117	155,656,091	159,663,457	160,361,098
Percentage of total revenues	22.3%	21.2%	21.3%	21.7%	18.9%	17.6%	18.8%	17.8%	18.0%	14.9%
<i>Instant tickets</i>										
Instant tickets	77,978,026	77,217,452	83,950,804	85,003,754	83,975,581	90,526,129	96,281,087	94,225,863	98,706,129	102,914,666
Percentage of total revenues	11.1%	10.7%	10.8%	10.9%	10.0%	10.4%	11.0%	10.9%	11.2%	9.5%
<i>Sportsbook</i>										
Sportsbook	-	-	-	-	-	-	-	-	-	127,587,809
Percentage of total revenues	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	11.8%
Games reported - revenue net of related prize awards										
<i>Video</i>										
Video lottery	467,772,084	492,594,189	527,323,124	520,747,106	507,056,712	516,262,400	488,690,835	482,404,252	481,372,523	522,754,625
Percentage of total revenues	66.5%	68.0%	67.8%	67.1%	60.5%	59.6%	55.7%	55.2%	54.3%	48.5%
<i>Table games</i>										
Table games	-	-	-	1,881,238	88,108,367	106,640,942	125,837,949	140,090,213	145,831,110	163,442,908
Percentage of total revenues	0.0%	0.0%	0.0%	0.2%	10.5%	12.3%	14.4%	16.0%	16.4%	15.2%
Total revenue	702,396,958	723,186,937	776,805,894	775,992,905	837,950,829	865,995,116	875,361,988	872,376,419	885,573,219	1,077,061,106
Non-operating income										
Investment income	98,194	76,759	92,061	114,980	108,350	106,509	163,373	305,420	542,969	553,497
Net pull tab sales	98,594	70,582	65,891	63,322	44,672	44,851	37,272	37,042	34,796	33,908
Contract revenue	625,000	625,000	625,000	625,000	625,000	625,000	625,000	625,000	625,000	625,000
Miscellaneous	206,708	396,278	162,823	406,683	353,407	282,605	276,216	211,516	242,547	233,422
Total non-operating revenues	1,028,496	1,168,619	945,775	1,209,985	1,131,429	1,058,965	1,101,861	1,178,978	1,445,312	1,445,827
Percentage of total revenues	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.2%	0.1%
Total revenues	\$ 703,425,454	\$ 724,355,556	\$ 777,751,669	\$ 777,202,890	\$ 839,082,258	\$ 867,054,081	\$ 876,463,849	\$ 873,555,397	\$ 887,018,531	\$ 1,078,506,933

RHODE ISLAND LOTTERY

Principal Revenue Sources

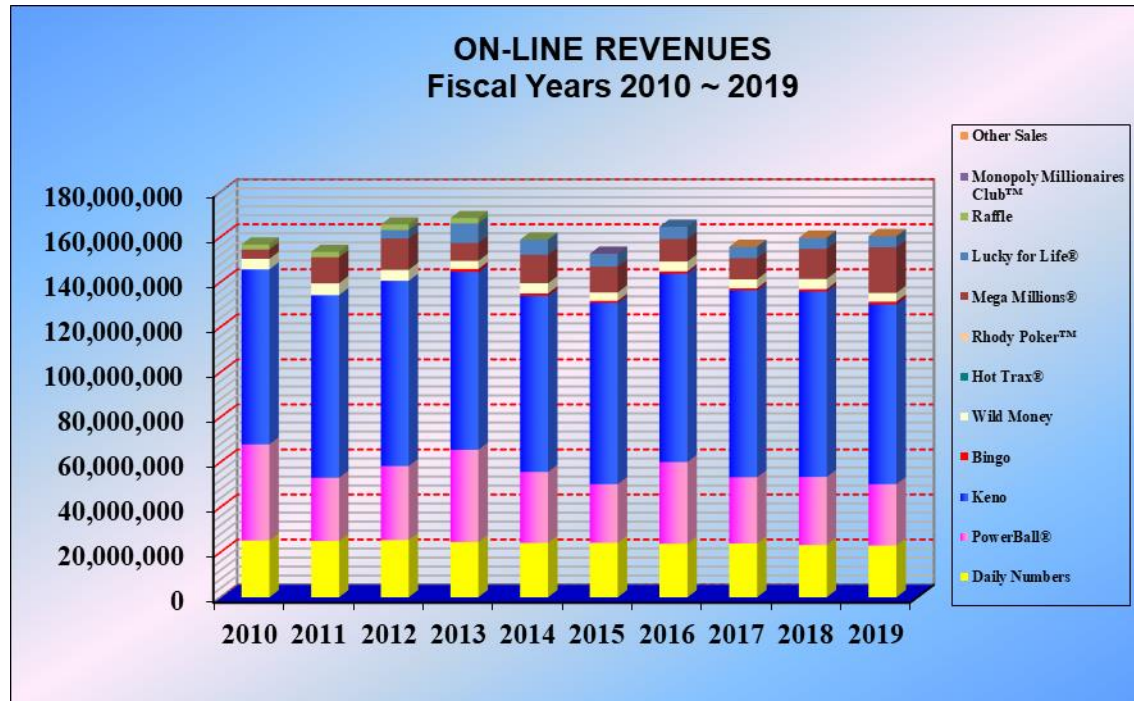
Fiscal Years 2010 through 2019



RHODE ISLAND LOTTERY

Revenue Sources

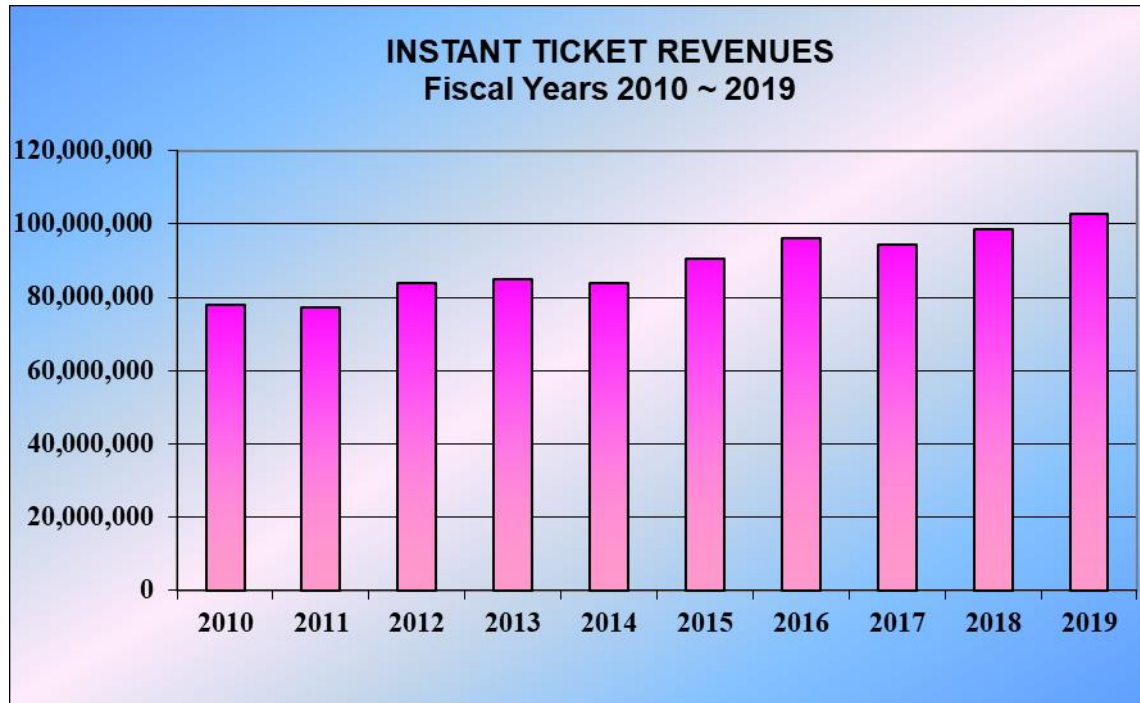
Fiscal Years 2010 through 2019



RHODE ISLAND LOTTERY

Revenue Sources

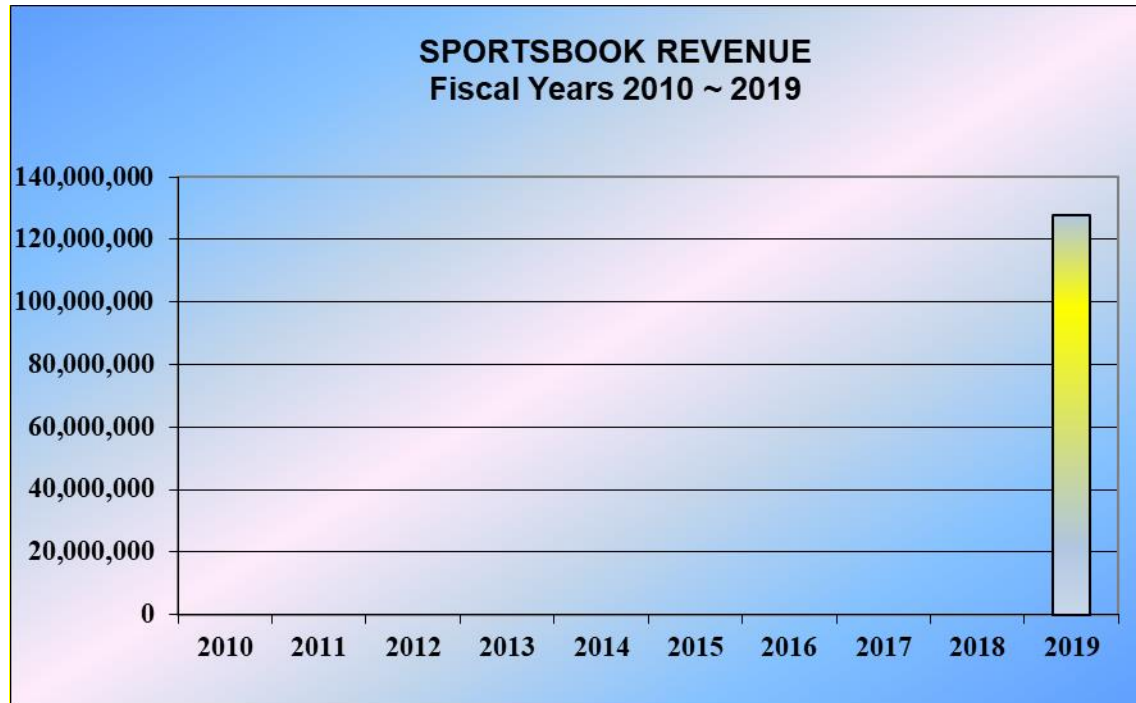
Fiscal Years 2010 through 2019



RHODE ISLAND LOTTERY

Revenue Sources

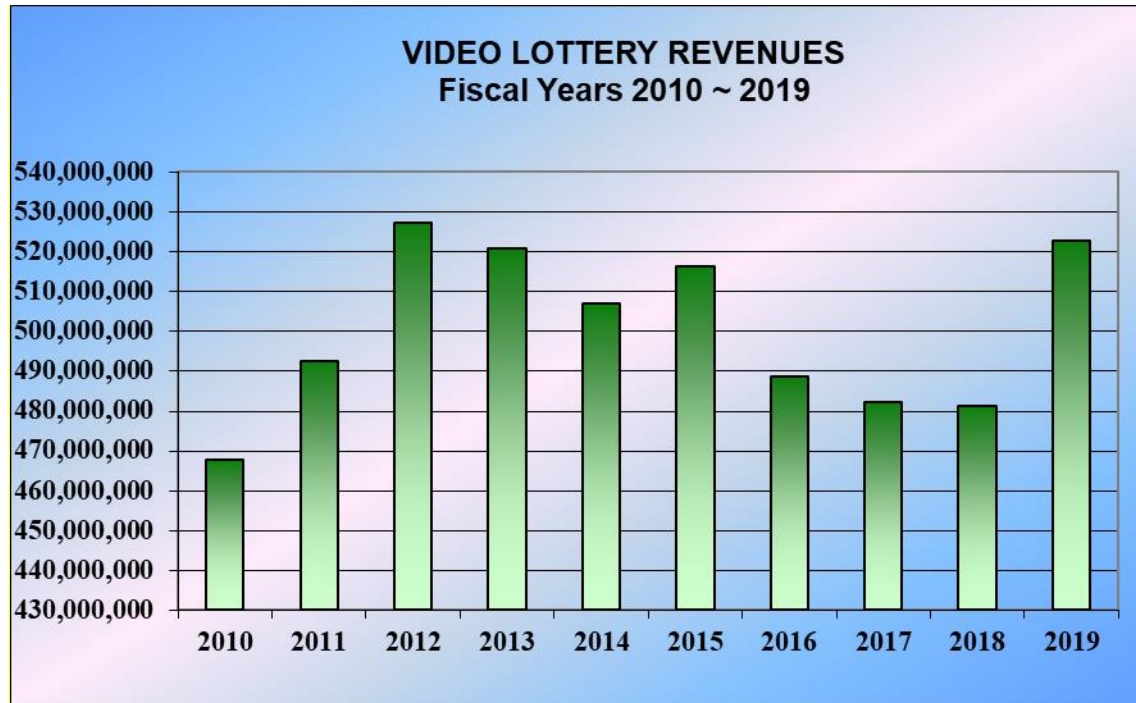
Fiscal Years 2010 through 2019



RHODE ISLAND LOTTERY

Revenue Sources

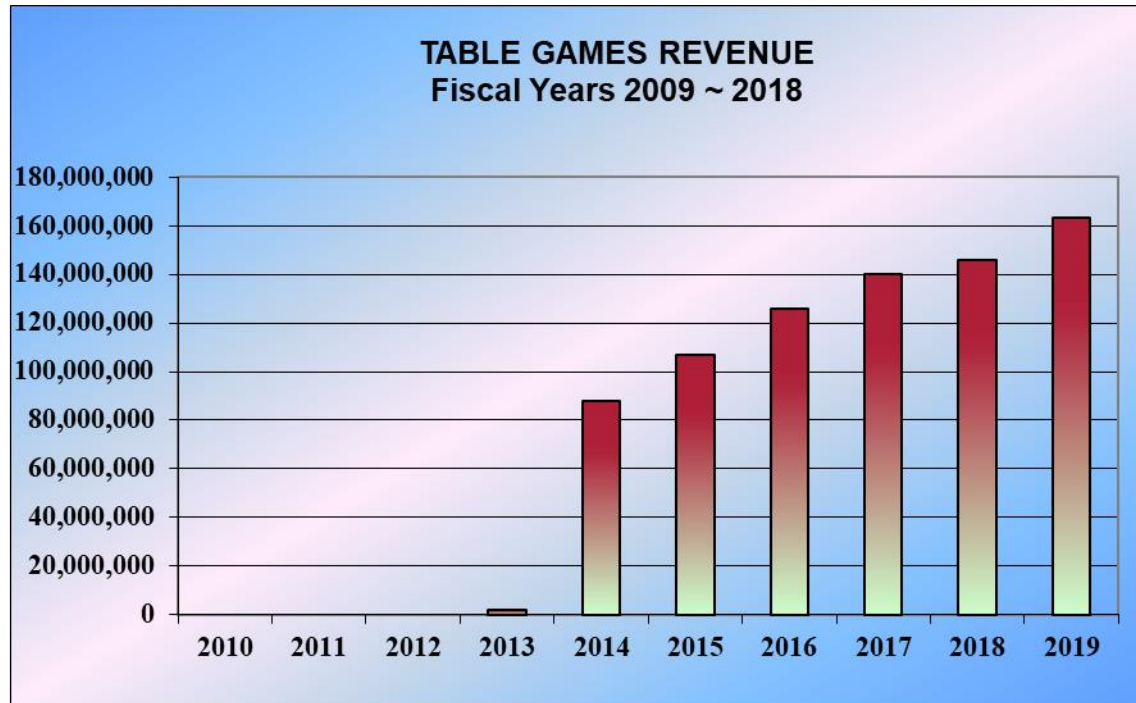
Fiscal Years 2010 through 2019



RHODE ISLAND LOTTERY

Revenue Sources

Fiscal Years 2010 through 2019



RHODE ISLAND LOTTERY

Change in Net Position

Fiscal Years 2010 through 2019

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Operating revenues										
Games reported - gross revenue										
On-line	\$ 156,646,848	\$ 153,375,296	\$ 165,531,966	\$ 168,360,807	\$ 158,810,169	\$ 152,565,645	\$ 164,552,117	\$ 155,656,091	\$ 159,663,457	\$ 160,361,098
Instant tickets	77,978,026	77,217,452	83,950,804	85,003,754	83,975,581	90,526,129	96,281,087	94,225,863	98,706,129	102,914,666
Sports Book	-	-	-	-	-	-	-	-	-	127,587,809
Games reported - revenue net of related prize awards										
Video lottery	467,772,084	492,594,189	527,323,124	520,747,106	507,056,712	516,262,400	488,690,835	482,404,252	481,372,523	522,754,625
Table games	-	-	-	1,881,238	88,108,367	106,640,942	125,837,949	140,090,213	145,831,110	163,442,908
Total operating revenue	<u>702,396,958</u>	<u>723,186,937</u>	<u>776,805,894</u>	<u>775,992,905</u>	<u>837,950,829</u>	<u>865,995,116</u>	<u>875,361,988</u>	<u>872,376,419</u>	<u>885,573,219</u>	<u>1,077,061,106</u>
Cost of gaming operations										
Retailer/vendor commissions	28,670,310	28,150,798	30,440,073	30,919,173	29,575,451	29,476,752	31,666,893	30,279,906	31,259,176	31,824,962
Video commissions	178,828,883	189,461,494	202,701,572	200,429,711	196,693,434	200,084,883	188,979,963	186,780,926	186,411,125	202,470,151
Sports book commissions	-	-	-	-	-	-	-	-	-	3,104,551
Table games commissions	-	-	-	1,542,615	72,248,861	89,578,391	105,703,877	117,675,779	122,498,132	137,995,985
Prizes	144,273,818	142,324,102	155,108,308	153,205,932	148,570,701	150,062,564	161,650,780	157,023,937	162,126,601	285,987,368
Incentive programs, video	-	2,212,253	4,003,153	4,076,294	4,070,183	4,119,330	6,802,349	6,857,127	6,799,640	6,053,466
Marketing/advertising expense	2,441,014	2,088,973	2,281,816	2,159,542	2,089,016	2,227,887	1,916,270	2,622,021	2,669,113	3,554,740
Unclaimed prize recovery	(3,270,897)	(2,368,721)	(2,619,903)	(3,328,183)	(2,611,675)	(2,618,608)	(2,271,719)	(2,808,577)	(2,650,661)	(3,300,542)
Cost of tickets	1,226,637	1,109,481	1,299,406	1,098,515	1,043,555	1,079,659	1,155,106	995,285	1,110,175	925,570
Total cost of gaming operations	<u>352,169,765</u>	<u>362,978,380</u>	<u>393,214,425</u>	<u>390,103,599</u>	<u>451,679,526</u>	<u>474,010,858</u>	<u>495,603,519</u>	<u>499,426,404</u>	<u>510,223,301</u>	<u>668,616,251</u>
Gross Profit	<u>350,227,193</u>	<u>360,208,557</u>	<u>383,591,469</u>	<u>385,889,306</u>	<u>386,271,303</u>	<u>391,984,258</u>	<u>379,758,469</u>	<u>372,950,015</u>	<u>375,349,918</u>	<u>408,444,855</u>
Operating Expenses										
Personal services	4,727,577	4,826,364	5,178,848	6,212,132	9,438,106	9,276,808	10,300,568	9,948,138	10,358,741	10,855,702
Contract services	57,509	80,732	133,469	61,413	56,822	109,948	18,624	36,154	41,598	48,538
Depreciation and amortization	246,683	234,375	220,856	151,218	114,087	101,746	111,393	131,982	131,603	132,628
Other	926,177	749,718	672,676	1,097,061	864,970	794,172	1,165,181	759,890	838,129	702,151
Total operating expenses	<u>5,957,946</u>	<u>5,891,189</u>	<u>6,205,849</u>	<u>7,521,824</u>	<u>10,473,985</u>	<u>10,282,674</u>	<u>11,595,766</u>	<u>10,876,164</u>	<u>11,370,071</u>	<u>11,739,019</u>
Operating Income	<u>344,269,247</u>	<u>354,317,368</u>	<u>377,385,620</u>	<u>378,367,482</u>	<u>375,797,318</u>	<u>381,701,584</u>	<u>368,162,703</u>	<u>362,073,851</u>	<u>363,979,847</u>	<u>396,705,836</u>
Non-operating income (expenses)										
Interest income	98,194	76,759	92,061	114,980	108,350	106,509	163,373	305,420	542,969	553,497
Contract revenue	625,000	625,000	625,000	625,000	625,000	625,000	625,000	625,000	625,000	625,000
Other	305,302	466,860	228,714	470,005	398,079	327,456	313,488	248,558	277,343	267,330
Total non-operating income (expenses)	<u>1,028,496</u>	<u>1,168,619</u>	<u>945,775</u>	<u>1,209,985</u>	<u>1,131,429</u>	<u>1,058,965</u>	<u>1,101,861</u>	<u>1,178,978</u>	<u>1,445,312</u>	<u>1,445,827</u>
Income Before Transfers	<u>345,297,743</u>	<u>355,485,987</u>	<u>378,331,395</u>	<u>379,577,467</u>	<u>376,928,747</u>	<u>382,760,549</u>	<u>369,264,564</u>	<u>363,252,829</u>	<u>365,425,159</u>	<u>398,151,663</u>
Transfers from (to) State's General Fund	(344,672,743)	(354,860,987)	(377,706,395)	(379,224,717)	(376,327,120)	(381,935,511)	(369,760,880)	(362,696,628)	(364,974,453)	(397,320,920)
Transfers from (to) RI Capital Plan Fund	-	-	-	272,250	23,373	-	444,458	-	-	-
Transfers from (to) Permanent School Fund	-	-	-	-	-	-	-	-	-	-
Transfers from (to) RI Council on the Arts	-	-	-	-	-	-	-	-	-	-
Increase (decrease) in net position	<u>\$ 625,000</u>	<u>\$ 625,000</u>	<u>\$ 625,000</u>	<u>\$ 625,000</u>	<u>\$ 625,000</u>	<u>\$ 825,038</u>	<u>\$ (51,858)</u>	<u>\$ 556,201</u>	<u>\$ 450,706</u>	<u>\$ 830,743</u>

RHODE ISLAND LOTTERY

Net Position

June 30, 2010 through 2019

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Net position at year-end										
Net investment in capital assets	\$ 690,870	\$ 469,496	\$ 266,828	\$ 402,288	\$ 460,135	\$ 455,395	\$ 368,149	\$ 421,514	\$ 314,132	\$ 353,299
Unrestricted (deficit)	(8,815,870)	(7,969,496)	(7,141,828)	(6,652,288)	(6,085,135)	(18,753,504)	(18,718,116)	(18,215,280)	(21,258,021)	(20,466,445)
Total net position (deficit)	<u>\$ (8,125,000)</u>	<u>\$ (7,500,000)</u>	<u>\$ (6,875,000)</u>	<u>\$ (6,250,000)</u>	<u>\$ (5,625,000)</u>	<u>\$ (18,298,109)</u>	<u>\$ (18,349,967)</u>	<u>\$ (17,793,766)</u>	<u>\$ (20,943,889)</u>	<u>\$ (20,113,146)</u>

RHODE ISLAND LOTTERY

Changes in Cash and Cash Equivalents

Fiscal Years 2010 through 2019

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Cash flows from operating activities										
Receipts from lottery sales, online and instant games	\$ 236,400,252	\$ 229,312,781	\$ 246,010,593	\$ 253,639,499	\$ 243,577,754	\$ 244,225,203	\$ 260,846,176	\$ 249,704,373	\$ 255,625,349	\$ 263,162,235
Receipts from video lottery operations (net of prizes)	467,772,084	492,594,189	527,323,124	520,747,106	507,056,712	516,262,400	488,690,835	482,404,252	481,372,523	520,958,097
Receipts from sports book	-	-	-	-	-	-	-	-	-	127,656,908
Receipts from table games (net of prizes)	-	-	-	1,881,238	88,108,367	106,640,942	125,837,949	140,090,213	145,831,110	163,352,339
Receipts from MUSL for grand prize winners	3,549,000	3,293,000	249,359,349	2,333,000	2,333,000	423,000	-	2,778,254	14,827,674	104,941
Receipts from MUSL for Lucky for Life® top prize winners	-	-	-	-	711,604	-	-	-	-	-
Receipts from problem gambling program	-	-	-	-	100,000	100,000	200,000	100,000	110,000	315,000
Other receipts	596,566	592,998	300,873	502,279	414,111	339,310	327,969	262,203	288,061	290,555
Payments for on-line and instant ticket prizes	(141,845,470)	(140,191,970)	(149,317,420)	(150,828,237)	(145,938,994)	(149,773,735)	(157,651,019)	(154,240,739)	(157,585,742)	(160,803,002)
Sports book payouts	-	-	-	-	-	-	-	-	-	(119,417,531)
Payments to MUSL grand prize winners	(3,549,000)	(3,293,000)	(249,359,349)	(2,333,000)	(2,333,000)	(423,000)	-	(2,778,254)	(14,827,674)	(104,941)
Payments for commissions - retailers	(8,334,037)	(8,208,460)	(8,931,584)	(9,035,425)	(8,932,729)	(9,633,389)	(10,266,937)	(10,057,345)	(10,518,181)	(10,978,572)
Payments for commissions - video lottery	(177,252,004)	(187,874,908)	(200,322,843)	(202,426,041)	(196,559,997)	(202,655,186)	(190,957,016)	(186,245,129)	(183,816,882)	(202,766,906)
Payments for commissions - sports book	-	-	-	-	-	-	-	-	-	(1,333,416)
Payments for commissions - table games	-	-	-	-	(73,602,436)	(87,465,347)	(104,844,750)	(119,313,361)	(121,800,935)	(136,645,583)
Payments for commissions - on-line games contractor	(20,363,068)	(19,933,400)	(22,427,886)	(21,883,748)	(20,642,722)	(17,760,618)	(22,429,985)	(19,150,948)	(20,821,956)	(20,707,789)
Payments to facilities - video lottery incentive program	-	-	(2,199,328)	(4,007,075)	(4,079,733)	(4,074,749)	(4,970,820)	(6,827,370)	(6,788,488)	(6,127,515)
Payments to suppliers for goods and services	(4,965,158)	(3,926,542)	(4,592,414)	(3,670,584)	(4,286,788)	(4,473,338)	(4,718,289)	(4,253,305)	(5,818,893)	(4,889,991)
Payments to employees for services	(4,567,917)	(4,867,093)	(5,213,577)	(6,221,555)	(9,331,812)	(9,441,122)	(9,544,337)	(10,126,431)	(9,996,859)	(10,902,676)
Net cash provided by operating activities	347,441,248	357,497,595	380,629,538	378,697,457	376,593,337	382,290,371	370,519,776	362,346,413	366,079,107	401,162,153
Cash flows from noncapital financing activities										
Transfers from (to) State's General Fund	(344,588,425)	(353,775,229)	(377,904,813)	(380,910,701)	(376,903,899)	(381,143,916)	(369,414,091)	(362,194,766)	(368,365,935)	(393,791,945)
Transfers from (to) RI Capital Plan Fund	-	-	-	272,250	23,373	-	-	444,458	-	-
Transfers from (to) from State's Permanent School Fund	9,659	-	-	-	-	-	-	-	-	-
Net cash used for noncapital financing activities	(344,578,766)	(353,775,229)	(377,904,813)	(380,638,451)	(376,880,526)	(381,143,916)	(369,414,091)	(361,750,308)	(368,365,935)	(393,791,945)
Cash flows from capital and related financing activities										
Purchase of capital assets	(131,578)	(13,000)	(18,188)	(294,330)	(171,934)	(97,006)	(24,147)	(185,347)	(24,221)	(171,795)
Proceeds from sale of capital assets	-	-	-	7,652	-	-	-	-	-	-
Net cash provided by (used for) capital and related financing activities	(131,578)	(13,000)	(18,188)	(286,678)	(171,934)	(97,006)	(24,147)	(185,347)	(24,221)	(171,795)
Cash flows from investing Activities										
Interest income	98,194	76,759	92,061	114,980	108,350	106,509	163,373	305,420	542,969	553,497
Net cash provided by investing activities	98,194	76,759	92,061	114,980	108,350	106,509	163,373	305,420	542,969	553,497
Net increase (decrease) in cash and cash equivalents	2,829,098	3,786,125	2,798,598	(2,112,692)	(350,773)	1,155,958	1,244,911	716,178	(1,768,080)	7,751,910
Cash and cash equivalents, beginning of year	11,613,490	14,442,588	18,228,713	21,027,311	18,914,619	18,563,846	19,719,804	20,964,715	21,680,893	19,912,813
Cash and cash equivalents, end of year	\$ 14,442,588	\$ 18,228,713	\$ 21,027,311	\$ 18,914,619	\$ 18,563,846	\$ 19,719,804	\$ 20,964,715	\$ 21,680,893	\$ 19,912,813	\$ 27,664,723

Source: Rhode Island Lottery

Rhode Island Demographics

RHODE ISLAND LOTTERY

Rhode Island Demographics

Rhode Island Population by County - As of July 1

Population	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Bristol County	49,542	49,817	49,227	49,267	49,249	49,073	49,115	48,863	48,800	48,649
Kent County	168,752	166,031	165,261	164,629	164,367	164,503	163,750	163,651	163,541	163,861
Newport County	80,300	83,175	83,199	83,202	83,452	83,350	83,268	83,197	83,018	82,542
Providence County	627,690	627,814	629,324	631,212	631,621	632,737	633,856	635,230	634,758	636,084
Washington County	126,925	127,101	126,525	126,291	126,433	126,354	126,184	126,122	126,369	126,179
Total Rhode Island Population	1,053,209	1,053,938	1,053,536	1,054,601	1,055,122	1,056,017	1,056,173	1,057,063	1,056,486	1,057,315
Percent Increase/(Decrease)	(.03%)	0.07%	(.04%)	0.10%	0.05%	0.08%	0.01%	0.08%	(.05%)	0.08%

Total Personal Income, Per Capita Personal Income and Unemployment Rate Data - Calendar Years 2009 - 2018

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Personal Income (in millions)	42,953	45,261	47,067	48,810	48,773	50,864	52,865	53,426	55,338	57,994
Per Capita Personal Income	40,783	42,945	44,675	46,283	46,225	48,166	50,053	50,542	52,379	54,850
Unemployment Rate	10.9%	10.9%	10.5%	10.1%	8.9%	7.3%	5.8%	5.0%	4.1%	3.7%

Source: U.S. Census Bureau, U.S. Department of Labor Bureau of Labor Statistics, and Bureau of Economic Analysis

As of result of revised census data, amounts for various years may differ from the amounts presented in the same tables in the June 30, 2018 report.

State of Rhode Island and Providence Plantations Principal Employers

2018				2009			
Rank	Employer	Employed	% of Total Employment	Rank	Employer	Employed	% of Total Employment
1	Lifespan	12,733	2.39%	1	Lifespan	11,866	2.35%
2	CVS Health Corp.	8,300	1.56%	2	Care New England	6,894	1.37%
3	Care New England	6,334	1.19%	3	Roman Catholic Diocese of Providence	6,200	1.23%
4	Citizens Bank	5,121	0.96%	4	CVS Corporation	5,800	1.15%
5	General Dynamics Electric Boat	4,595	0.86%	5	Citizen's Financial Group (Royal Bank of Scotland)	5,375	1.06%
6	Brown University	4,009	0.75%	6	Brown University	3,787	0.75%
7	Naval Undersea Warfare Center	3,456	0.65%	7	Bank of America	3,000	0.59%
8	Fidelity Investments	3,300	0.62%	8	Fidelity Investments	2,300	0.46%
9	Charter CARE Health Partners	3,132	0.59%	9	Warren Equities, Inc.	2,260	0.45%
10	Roman Catholic Diocese	3,000	0.56%	10	Metlife	2,214	0.44%
		533,000	10.13%		Total employment	505,000	9.85%

Source: 2018 information is provided by the RI Department of Labor and Training.

Some employers are not listed because they did not wish to participate.

RHODE ISLAND LOTTERY

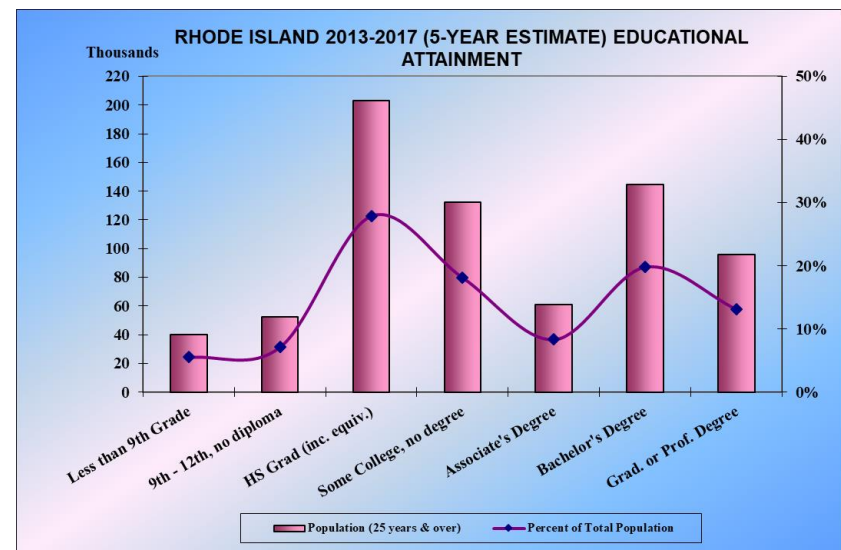
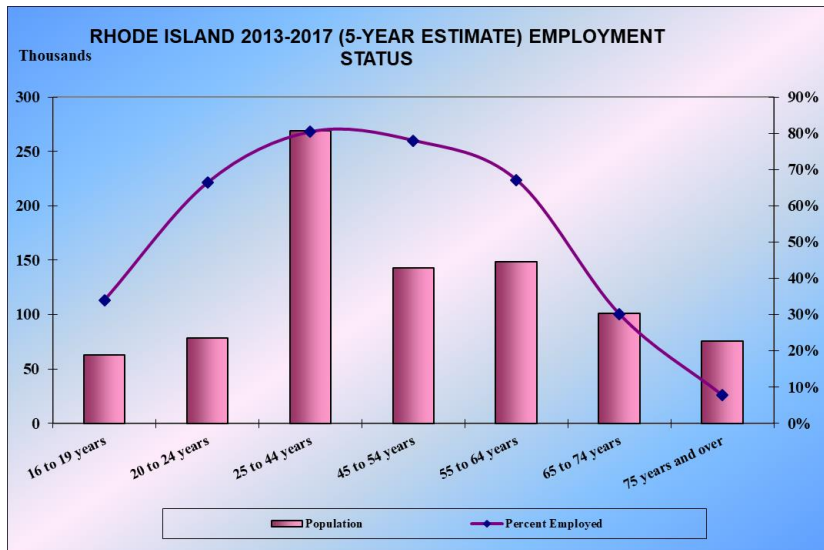
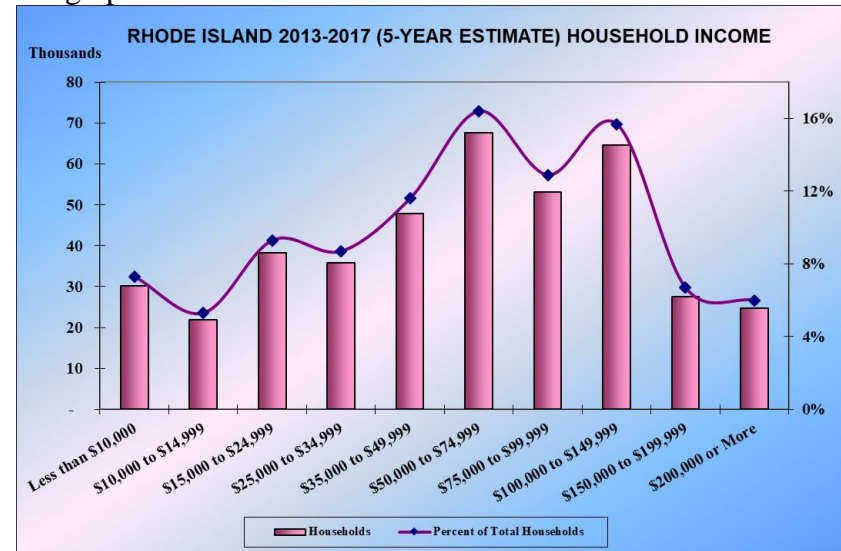
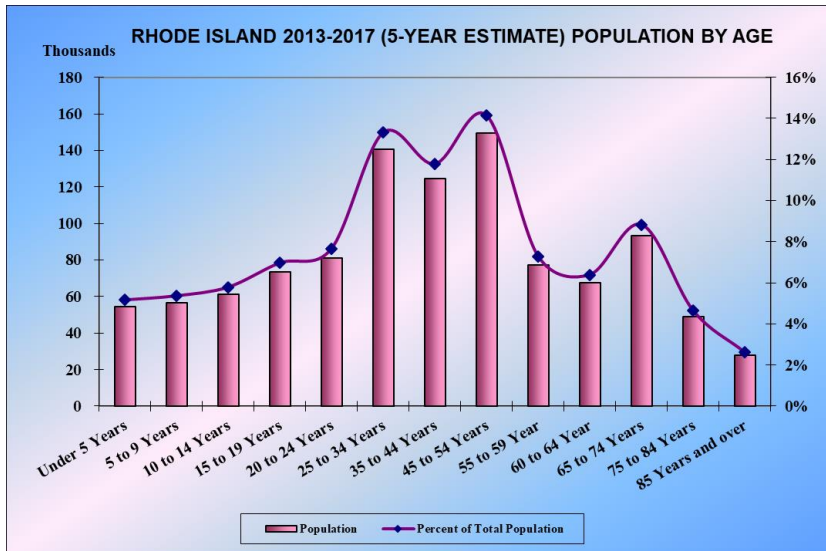
Rhode Island Lottery Employees by Function

Categories	Total Employees									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Officials/Managers/Administrators	5	5	6	8	8	8	8	8	9	9
Professionals	11	12	12	19	19	16	17	16	18	23
Technicians	4	4	5	6	6	6	6	6	6	7
Protective Services	2	2	2	10	9	10	10	10	10	17
Para Professionals	17	17	16	28	29	27	27	26	28	38
Administrative Support	8	8	8	9	9	9	9	9	8	8
Maintenance	2	2	2	2	1	2	2	2	2	2
Total	49	50	51	82	81	78	79	77	81	104

Source: Rhode Island Lottery

RHODE ISLAND LOTTERY

Rhode Island Demographics



Source: U.S. Census Bureau

Lottery Statistics – National

U.S. LOTTERIES RANKED BY FISCAL YEAR 2019 SALES				U.S. LOTTERIES RANKED BY SALES % CHANGE		
RANK	LOTTERY	FY '18 SALES (\$M)	FY '19 SALES (\$M)	RANK	LOTTERY	% CHANGE
1	New York	9,973.52	10,290.55	1	Wyoming	28.48%
2	California	6,965.79	7,388.05	2	Pennsylvania	15.72%
3	Florida	6,700.81	7,151.24	3	New Hampshire	15.51%
4	Texas	5,626.85	6,251.48	4	South Carolina	13.19%
5	Massachusetts	5,276.90	5,490.37	5	North Dakota	12.92%
6	Georgia	4,597.78	4,776.01	6	Texas	11.10%
7	Pennsylvania	4,221.38	4,884.79	7	Colorado	11.08%
8	Ohio	4,147.41	4,419.40	8	Kansas	9.79%
9	Maryland	3,721.76	3,957.32	9	North Carolina	9.76%
10	Michigan	3,578.07	3,884.16	10	Arizona	9.72%
11	New Jersey	3,299.70	3,482.35	11	Washington	9.45%
12	Illinois	2,928.42	2,977.59	12	Oklahoma	9.31%
13	North Carolina	2,605.31	2,859.63	13	Idaho	8.61%
14	Virginia	2,139.82	2,293.56	14	Michigan	8.55%
15	South Carolina	1,750.16	1,980.94	15	Kentucky	8.36%
16	Tennessee	1,735.91	1,812.60	16	Montana	8.24%
17	Missouri	1,400.22	1,466.03	17	Rhode Island***	7.99%
18	Oregon	1,302.33	1,346.53	18	Delaware	7.21%
19	Indiana	1,270.07	1,347.76	19	Virginia	7.18%
20	Connecticut	1,267.59	1,333.91	20	New Mexico	7.16%
21	West Virginia	1,159.76	1,224.06	21	Wisconsin	6.85%
22	Kentucky	1,042.51	1,129.66	22	Minnesota	6.76%
23	Arizona	981.38	1,076.79	23	Florida	6.72%
24	Rhode Island***	885.57	956.34	23	Louisiana	6.72%
25	Washington	733.94	803.28	23	Ohio	6.56%
26	Wisconsin	667.39	713.13	26	Maryland	6.33%
27	Colorado	611.99	679.78	27	Indiana	6.12%
28	Delaware	605.94	649.65	28	California	6.06%
29	Minnesota	596.48	636.81	29	West Virginia	5.54%
30	Arkansas	499.71	515.49	30	New Jersey	5.54%
31	Louisiana	490.98	523.97	31	Iowa	5.37%
32	Iowa	370.96	390.90	32	Connecticut	5.23%
33	New Hampshire	332.75	384.37	33	South Dakota	5.17%
34	Maine	294.13	299.45	34	Vermont	5.16%
35	South Dakota	278.81	293.23	35	Nebraska	4.81%
36	Kansas	268.95	295.28	36	Missouri	4.70%
37	Idaho	265.08	287.91	37	Tennessee	4.42%
38	Oklahoma	221.11	241.69	38	Massachusetts	4.05%
39	D.C.	210.26	213.06	39	Georgia	3.88%
40	Nebraska	183.37	192.18	40	Oregon	3.39%
41	New Mexico	134.03	143.63	41	New York	3.18%
42	Vermont	132.42	139.25	42	Arkansas	3.16%
43	Montana	56.60	61.26	43	Maine	1.81%
44	North Dakota	31.31	35.35	44	Illinois	1.68%
45	Wyoming	28.75	36.93	45	D.C.	1.33%
	TOTAL	85,593.98	91,317.73			6.69%
***Above schedule reflects net VLT sales.						
Results are unofficial and unaudited						
Source: North American Association of State & Provincial Lotteries						

U.S. LOTTERIES RANKED BY FISCAL YEAR 2019 PROFIT				U.S. LOTTERIES RANKED BY PROFIT % CHANGE		
RANK	LOTTERY	FY '18 PROFIT (\$M)	FY '19 PROFIT (\$M)	RANK	LOTTERY	% CHANGE
1	New York	3,371.87	3,474.04	1	Wyoming	39.54%
2	Florida	1,758.33	1,927.00	2	Wisconsin	37.87%
3	California	1,700.94	1,847.06	3	New Hampshire	21.00%
4	Texas	1,450.47	1,636.59	4	Colorado	18.28%
5	Maryland	1,148.85	1,201.68	5	Washington	17.93%
6	Georgia	1,143.91	1,207.77	6	North Dakota	16.16%
7	Pennsylvania	1,093.65	1,143.23	7	Montana	14.03%
8	Ohio	1,087.72	1,153.93	8	Michigan	13.73%
9	New Jersey	1,030.30	1,105.00	9	South Carolina	13.25%
10	Massachusetts	997.06	1,104.22	10	Texas	12.83%
11	Michigan	942.27	1,071.64	11	Idaho	12.15%
12	Oregon	726.09	730.14	12	Massachusetts	10.75%
13	Illinois	722.38	735.51	13	Florida	9.59%
14	North Carolina	676.47	710.20	14	Rhode Island***	8.86%
15	Virginia	606.22	649.70	15	Arizona	8.71%
16	West Virginia	473.95	495.14	16	California	8.59%
17	South Carolina	430.98	488.09	17	New Jersey	7.25%
18	Tennessee	421.68	447.19	18	Connecticut	7.20%
19	Rhode Island***	364.97	397.32	19	Louisiana	7.19%
20	Connecticut	347.30	372.30	20	New Mexico	7.19%
21	Missouri	333.39	346.72	21	Virginia	7.17%
22	Indiana	306.08	312.22	22	Arkansas	7.15%
23	Kentucky	266.42	283.61	23	Vermont	7.15%
24	Delaware	214.91	215.56	24	Iowa	6.62%
25	Arizona	211.91	230.36	25	Kentucky	6.45%
26	Washington	182.97	215.78	26	Ohio	6.09%
27	Louisiana	171.96	184.32	27	Tennessee	6.05%
28	Wisconsin	170.65	235.28	28	Oklahoma	5.59%
29	Minnesota	145.10	153.19	29	Georgia	5.58%
30	Colorado	140.74	166.46	30	Minnesota	5.58%
31	South Dakota	124.75	129.75	31	North Carolina	4.99%
32	Arkansas	91.84	98.41	32	Maryland	4.60%
33	New Hampshire	87.28	105.61	33	Pennsylvania	4.53%
34	Iowa	87.10	92.86	34	West Virginia	4.47%
35	Kansas	74.73	74.91	35	South Dakota	4.01%
36	Oklahoma	63.98	67.55	36	Missouri	4.00%
37	Maine	63.03	63.20	37	New York	3.03%
38	Idaho	53.50	60.00	38	Nebraska	2.91%
39	D.C.	49.50	44.50	39	Indiana	2.01%
40	Nebraska	45.25	46.57	40	Illinois	1.82%
41	New Mexico	40.22	43.11	41	Oregon	0.56%
42	Vermont	27.15	29.10	42	Delaware	0.30%
43	Montana	10.70	12.20	43	Maine	0.27%
44	North Dakota	8.04	9.34	44	Kansas	0.24%
45	Wyoming	4.74	6.62	45	D.C.	-10.10%
	TOTAL	23,471.34	25,124.99			7.05%
***Above schedule reflects net VLT sales.						
Results are unofficial and unaudited						
Source: North American Association of State & Provincial Lotteries						